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CLEARING
OUT-OF-TOWN CHECKS
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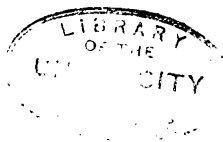
CLEARING OUT-OF-TOWN CHECKS

IN
England and the United States.

BY
JAMES C. HALLOCK.

"

"St. Louis is the gateway of the Southwest."



Published by the Author
at St. Louis, Mo.,
1903.

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GENERAL

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by
JAMES C. HALLOCK.

PREFACE.

The success of clearing city checks is so unquestioned that the propriety of clearing out-of-town checks would perhaps be taken for granted, were it not that with a membership of three to sixty odd in city clearing-houses hundreds or thousands of banks have to be included in systems of country clearing. The difficulty of overcoming the inertia and securing the active co-operation of so many appears insuperable to the generality of practical bankers.

It was always so. The origin of city clearing houses in America was due to the initiative and persistency of a man without banking experience; therefore, one chiefly impressed with the want of them, and unembarrassed by apprehensions of trouble arising from a new departure in bank routine. The same is true of the origination of American country clearing on a sufficient scale to be national in character, earlier systems being local, confined to limited areas, and, though interesting as well as instructive, of minor commercial importance.

The first of these men was my father, James C. Hallock, Sr., who devised the plan of the New York Clearing House in 1853, a plan which was adopted and put into operation the same year.

Hearing of what he did, a Rhode Island banker, in 1898, urged me to bring about the clearing of country checks. As a result of my instant and untiring devotion to the matter, the Boston Clearing House thirteen months later, in 1899, began to clear New England checks.

Hearing of what I had done, the St. Louis Credit Men invited me to address their Association on October

23, 1902, with a view of ultimately bringing about, if practicable, the clearing of out-of-town checks in the West.

The encouragement received from St. Louis banks and merchants resulted in an organized movement among the business men of St. Louis, one feature of which is the publication of this little treatise.

The title restricts the consideration of the subject to the clearing of out-of-town checks in England and the United States. No attempt is made to use more of the historical material than is required to support the positions taken. In preparing the work it has been considered necessary to submit every detail to some expert in Western and Southern banking. It gives me pleasure to record that this service has been cheerfully and patiently rendered by Mr. John H. Crabtree, a member of the St. Louis Credit Men's Association, who, in 1893, early in his banking experience, took part in the organization of clearing-houses at Chattanooga and other places of the South.

St. Louis, Mo.

J. C. H.

April, 1903.

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TO THE COUNTRY BANKER.

The difference between city and country banking in the United States entirely disappeared a generation ago in the matter of bank notes. For nearly forty years the issues of the smallest country bank located anywhere in any State or Territory have circulated throughout the Union, without prejudice or discrimination, on a par with the issues of the largest city bank. A prohibitive tax, banishing from circulation all private and State-bank notes, has confined these universally accepted issues to notes fully secured by deposits of bonds and guaranteed by the Government to be receivable in payment of public dues.

In most places country and city checks can be deposited on equal terms. But in some cities of late a movement has been set on foot to sink out-of-town checks to a lower level and receive them only at a discount, excepting those on certain more or less distant cities arbitrarily selected. For instance, New York City banks receive at par checks on Albany and Troy but not on Rochester, Buffalo, or any other place in the Empire State; on Philadelphia but not on Pittsburgh or any other place in Pennsylvania; on Providence, R. I., and Boston, Mass., but not on Hartford or New Haven, Conn., or any other place in New England. Such unjust distinctions can not last.

Railroads and the superior postal facilities they make possible, telegraphs, long-distance telephones, and the general dissemination of market reports by daily newspapers, have effaced all the essential difference between country and city banks.

Without a clearing-house, what would city banking be in New York, Philadelphia, Boston, Chicago or St. Louis? And how can country banking be placed and kept on the same high level without a clearing-house for country items? Country checks have already been cleared for years at some financial centers. The clearing of out-of-town checks would never have been permanently established anywhere, if not advantageous to the country banks.

Men there are who bewail the substitution of the mowing machine for the scythe, the harvester for the sickle, the locomotive for horses and the post-chaise. Where would the country banker be without the modern improvements in trade, industry and transportation? In Madison's administration the Treasury Department complained that receipts from the sales of public lands at Shawneetown, Ill., Vincennes, Ind., etc., paid in local bank paper, could not be transferred to the East where the Government had disbursements to make. Under such conditions a few bankers might fatten, but many could not exist. No improvement is too good or too great for the country banker.

The special object of this little work is to make checks on all banks in Missouri and the Southwest as good as St. Louis checks. To accomplish this sublime object will require the hearty and generous co-operation of banks in all this region with the banks of St. Louis.

INTRODUCTION.

Collection of Out-of-Town Checks Unsatisfactory—Improved by Clearing—A Missouri Example—A Great Free Zone Proposed.

THE collection of checks on out-of-town banks was so unsatisfactory in 1895 that the members of the St. Louis clearing-house established uniform charges which all bound themselves to exact from city customers. The dissatisfaction of the St. Louis banks ceased for the most part upon receipt of a revenue sufficient to reimburse the cost of such collections to each and add considerably to the profits of some. On the other hand, their dealers who paid the charges were, in general, dissatisfied. The maintenance of these rates for eight years has not diminished the discontent, or reconciled merchants to a burden which is practically unknown in some other cities.

In these pages a proposition will be made which, for obvious reasons, will be entirely satisfactory to the mercantile community of St. Louis, and probably acceptable to a majority, if not all, of the city banks.

IMPROVED BY CLEARING.

The method of handling out-of-town checks deposited in banks for collection is susceptible of a distinct improvement which has been thoroughly tested by trial and long usage in several regions. Was not the collection of city checks through the clearing-house an improvement upon their collection without one? Fifty years ago there was

no clearing-house in America, and banks in New York opposed the formation of one. In that very year (1853) the New York clearing-house was organized. To-day in all large and many small cities of the United States that modern improvement is deemed indispensable. Five years after the origin of American clearing-houses, and when they had spread from New York to only Boston and Philadelphia, the London bankers took another step forward in the line of commercial progress and commenced to clear out-of-town checks through their clearing-house, which for three-quarters of a century had confined its operations to the clearance of items on city banks. Forty-one years later (1899) the Boston clearing-house began to clear New England checks. The clearing of out-of-town checks is now permanently established in England and New England.

The whole question of bank collections is simplified by this indispensable, modern improvement. This better way removes in large measure those just grounds of complaint which actuated the St. Louis banks in fixing their charges to meet insupportable expenses. The clearing of out-of-town checks so reduces the cost and labor that no charge is made in London to city customers for collecting English and Welsh checks, nor in Boston for collecting checks drawn on any bank in the free zone of New England.

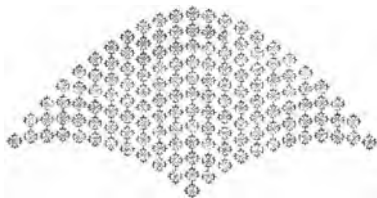
A MISSOURI EXAMPLE.

Missouri has not to look to Massachusetts or Great Britain for an example of clearing out-of-town checks. There is an instance nearer home. Indéed, within the State, at Sedalia, they have been cleared since 1895. What Sedalia does, St. Louis can certainly do. Unconsciously Sedalia adopted a modification of the London plan, making it conform to the requirements of Missouri. The success which Sedalia has had on a small scale can be repeated by St. Louis on a large one, including in its

scope the whole Southwest. Where the modified London plan might not work, the Boston plan would.

A GREAT FREE ZONE PROPOSED.

The proposition here made to the St. Louis banks is, then, that they should clear as many out-of-town checks as possible by the London plan after the Sedalia fashion, and the rest by the Boston plan. The merits of this proposition can not be fairly discussed without a full appreciation of the economies effected by the process known as "clearing," or without a knowledge of the different methods by which out-of-town checks are cleared at London, Sedalia and Boston. These subjects will be made as plain as can be in the following chapters, and then all the necessary details of the proposition will be given with reasons why St. Louis should clear out-of-town as systematically as city checks, and form a great free zone which would necessarily enhance the importance of the city as a financial center and promote the development of its trade and industry to the mutual benefit of its banks and people.



"Clearing is, beyond all question, the simplest, the most economical, and when applicable, the most efficient of all modes of paying debts. It is precisely analogous to balancing accounts."—STEPHEN COLWELL.



CHAPTER I.

THE ECONOMY OF CLEARING CHECKS.

Fifty Accounts where One does Now—A Rudimentary Clearing—Superfluous Trips Continued—Bank Settled with Bank Weekly—Amazing Economies through Clearing.

IN 1853 the banks of New York City organized a clearing-house—the first in America. Until then they had done business without one. The method had been laborious.

FIFTY ACCOUNTS WHERE ONE DOES NOW.

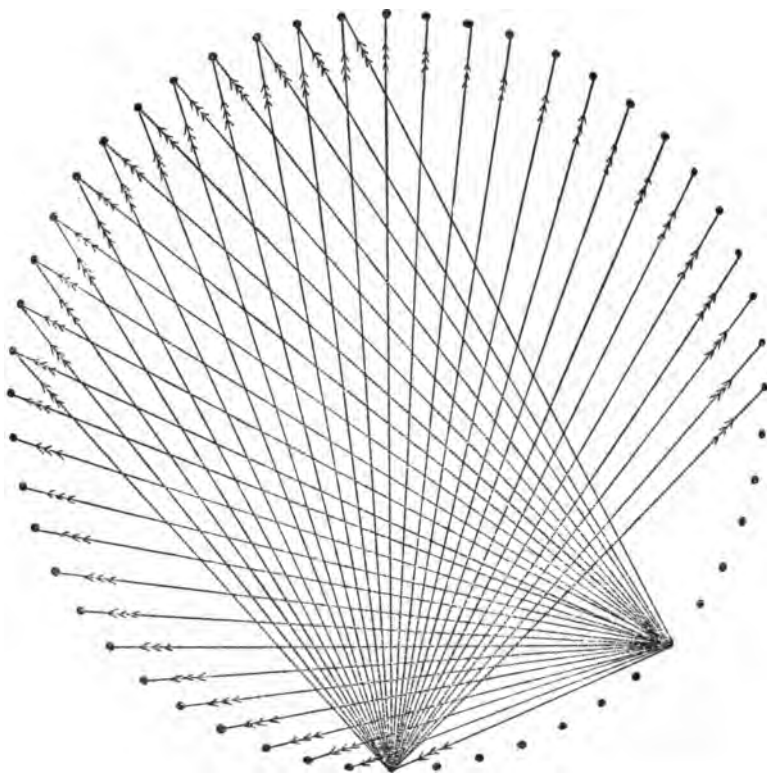
Each of the fifty-two banks had daily received over its counter or by mail checks on every other bank in town. To collect them the banks had opened deposit accounts with one another. Each had become a depositor in fifty-one city banks. Each also had had the others as depositors and kept fifty-one accounts with them. The pass-books used had been of the ordinary form, as "Merchants' Bank, in account with Chatham Bank."

According to the common usage of depositors, each bank would have sent messengers to fifty-one banks daily and each would have had fifty-one messengers come to its own counter from the other banks. They had done a little better than that. The Chatham Bank, for instance, would have checks on the Merchants' Bank. It would list them on a deposit slip, charge the Merchants' Bank with the amount in its pass-book and place the checks in the book which the messenger would now carry to the Merchants' Bank and deliver to its receiving teller. The latter would remove the checks and, having some on the Chatham Bank with list attached, he would credit his

bank with the amount in the pass-book, place the package in it and hand it back thus refilled to the messenger.

A RUDIMENTARY CLEARING.

This exchange of checks by two banks at the counter of one was a rudimentary clearing which, like all bank clearings, saved labor, time and trouble. To deposit these



**Without a Clearing-House in New York.
Diagram showing a Bank Messenger's 26 Trips
to Exchange Checks with other Banks.**

checks in the customary manner would have required two messengers and two pass-books. By this clearing arrangement one messenger and one pass-book sufficed. Perceiving the sensibleness of this saving, the New York banks had for many years tacitly agreed that each should send messengers to one-half of the banks for six months and to the other half for the next six months. They had thus reduced the number of banks to be visited daily by each from fifty-one to twenty-six, and accordingly reduced the number of pass-books in use by each. -

SUPERFLUOUS TRIPS CONTINUED.

The accompanying diagram, representing the banks arranged in a circle with two of them sending messengers to twenty-six each, indicates how toilsome the exchange of checks still was up to the formation of the New York clearing-house, which commenced operations on the 11th of October, 1853. Though only two banks are represented as sending, in fact all were either sending or being sent to; for every bank sent to all others that did not send to it.

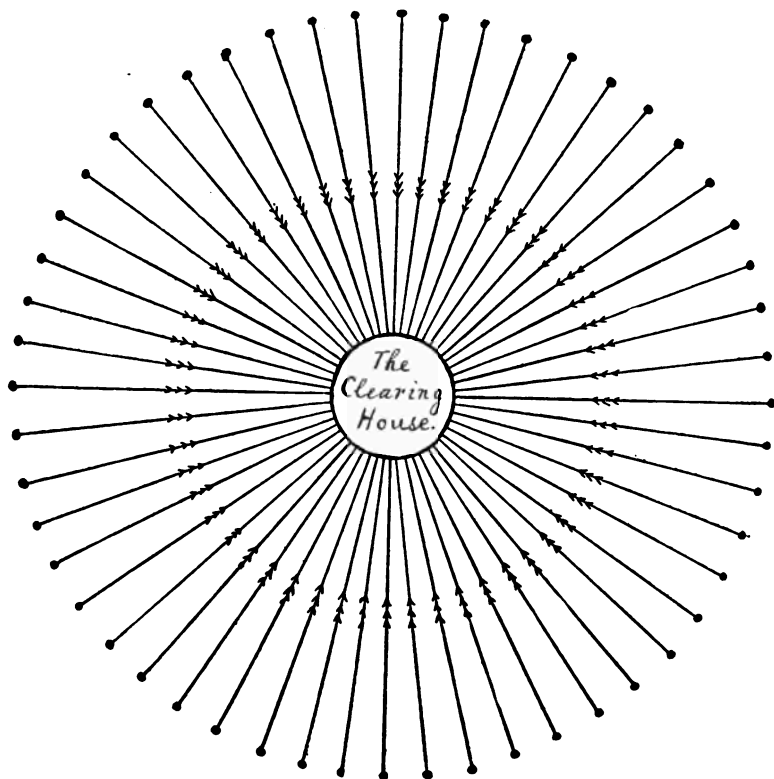
BANK SETTLED WITH BANK WEEKLY.

When two banks exchanged checks, the amounts were almost always unequal, leaving a balance for one to pay and the other to receive. Every day every bank, if they had settled daily, would have had fifty-one balances to pay or receive. They were payable in coin. Instead of attempting a daily adjustment of accounts, which would have consumed hours and caused much annoyance, it had become a tacit agreement that a weekly settlement of balances should be made after the exchange of Friday morning. On settlement day the cashier of each bank would draw checks for every debt due to him by other banks, and send out the messengers to collect them. Over fifty porters were out all at once, wrote a bank officer of the time, with an aggregate of several hundred bank drafts in their pockets, balking each other, drawing specie

at some places, and depositing it in others; and the whole process was one of confusion, disputes, and unavoidable blunders, of which no description could give an exact impression.

AMAZING ECONOMIES THROUGH CLEARING.

The second diagram, representing the fifty-two banks in a circle around the clearing-house, indicates how com-



With a Clearing House in New York.
Diagram showing Single Trips to Exchange Checks with all
other Banks in the City.

pletely all this misdirection and waste of energy stopped upon the installation of that marvelous method which effects such amazing economies. Every bank now sends straight to a common point. Every bank sends there all the checks it has on all the city banks and charges the whole amount against an imaginary debtor—the clearing-house. Every bank receives there all the checks all the other city banks have on it and admits its indebtedness for the whole amount to an imaginary creditor—the clearing-house. The balance can now be struck. If the bank loses, it pays the clearing-house the difference. If the bank gains, the clearing-house pays the bank; and there is the end of it, reached by the shortest path with the greatest ease and quickness.

SUMMARY.

The principal results may now be summarized:

The clearing-house saved every bank in New York City, on the average, twenty-six trips daily to exchange checks with other banks. It abolished sending to other banks for this purpose. It substituted one trip to the clearing-house—an economy of $96\frac{1}{2}$ per cent.

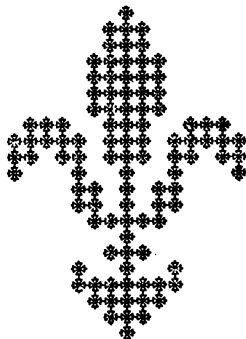
The clearing-house saved every bank in New York the payment or receipt, mostly in coin, of fifty balances on settlement day (Friday). It abolished settling at the counter of banks except for checks sent through the clearing and returned “not good.” It substituted one payment or receipt of a net balance to or from the clearing-house—an economy of 98 per cent.

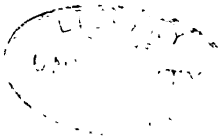
The clearing-house saved the banks of New York all the drudgery, irritation and anxiety which had made daily settlements impracticable. It abolished the weekly settlement. It substituted daily settlements through the clearing-house—an economy of considerable importance.

The clearing-house saved all the banks of New York the trouble of keeping accounts with one an-

other. It abolished accounts of city banks with city banks—closed 2,652 accounts. It substituted one account for each bank with the clearing-house—an economy of 98 per cent.

These savings, not to mention others, prove beyond dispute that clearing checks economizes.





CHAPTER II.

CLEARING OUT-OF-TOWN CHECKS NEEDED.

Put through Nine Banks—Cleared through Two—East St. Louis Pays to Clear—Making Checks Payable in St. Louis—Unnecessary Letters to and from Clayton—Eleven Unnecessary Drafts—"Typical Journey of a Country Check"—Much Unnecessary Clerical Labor—Why Sent Roundabout—Long Island Check Put through Ten Banks—Vermont Check Collected through Philadelphia and Boston—Arkansas Check Collected through Kansas and Missouri—To Find the Open Door—A Direct, Orderly Method Wanted—Summary.

THE need of clearing city checks is generally recognized. The convictions of bankers in regard to it are based upon experience. It is a pity that more bankers in America have not had experience in clearing out-of-town checks. Without that conviction which experience impresses on the mind, many are apt to consider the question debatable. Hence a matter, which ought to be self-evident, has to be argued and proven true. Fortunately the material is abundant, and a variety of examples will here be given so that, if one does not convince, another may. Many men, many minds. There are several ways to reach the conclusion that clearing out-of-town checks is needed.

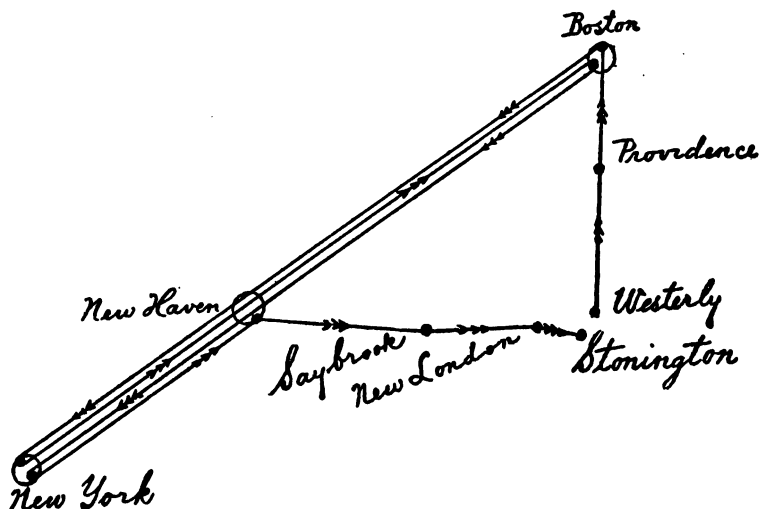
Upon proposing the clearance of New England checks, in 1898, I said, in an article on "The practicability of a clearing house for country items" (*Bankers' Magazine* for July, 1898) :

"The city check belongs to the age of locomotives and trolleys, whereas the country check on this side of the Atlantic is,

in some respects, not yet abreast of the stage-coach days. In the good olden time, when the coach from New York turned into the Bowery, every mile of the old Boston post-road which it left behind brought it so much nearer its destination. The peregrination of a country check is not always so direct."

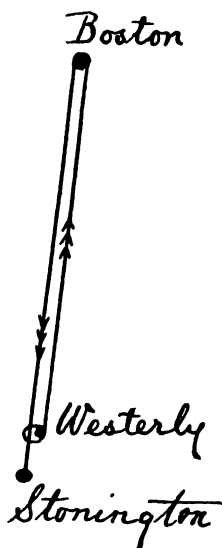
PUT THROUGH NINE BANKS.

And I published the following case of circuitous collection, with diagram, which at the time was very serviceable in calling attention to the need of reform in New England:



Check for less than \$50 on Stonington, Conn.

Started at Westerly, R. I., six miles from Stonington, which it reached only after many days and a thousand miles of travel by the following route: Westerly to Providence, Providence to Boston, Boston to New York, New York to Boston again, but to another bank; Boston to New York again, but to another bank; New York to New Haven, New Haven to Saybrook, Saybrook to New London, and New London to Stonington. It passed through Boston twice, New York twice and New Haven four times. It was put through nine banks, two of them in Boston and two in New York.



Ere many months had passed after the publication of my article, Westerly was able to collect, free of charge, a Stonington check directly through Boston and the Boston clearing-house, as shown in the accompanying diagram. It indicates a check going from the Westerly bank to a Boston bank, then to the Boston clearing-house, and from the clearing-house to the Stonington bank.

CLEARED THROUGH TWO.

As this case of reducing from nine to two the number of banks through which a check was put to collect it may be considered by some a mere curiosity seldom met with in every-day experience, let us turn to other examples and take up this apparent monstrosity further on when it will reappear in another and no better shape.

EAST ST. LOUIS PAYS TO CLEAR.

Checks on a few out-of-town banks are cleared in St. Louis under the same regulations as city checks. In this way the St. Louis clearing-house handles checks drawn on four Illinois banks, to wit: Southern Illinois National Bank, and First National Bank, of East St. Louis, and First National Bank, of Granite City, and Granite City National Bank, of the same place. They clear through members just as a trust company or non-member bank in St. Louis does. The clearer delivers to each of them its cleared checks in one package, or, if they were mailed, under one cover, and charges its account with the amount. As these banks pay for the

privilege, they evidently think it is needed in their business.

MAKING CHECKS PAYABLE IN ST. LOUIS.

The other banking institutions of East St. Louis, Ill., obtain the same result by stamping their checks payable at some St. Louis bank. One prints on its checks laconically: "Payable at Mercantile Trust Co., St. Louis, Mo." The usual form is: "Payable, if desired, at the _____ Bank, St. Louis, Mo."

UNNECESSARY LETTERS TO AND FROM CLAYTON.

A couple of miles from the city line of St. Louis, at Clayton, the county seat of St. Louis County, a bank received the other day twelve letters inclosing checks presented for payment by twelve banks in St. Louis. The postage was 24 cents. The St. Louis County Bank paid the checks in drafts on its St. Louis correspondent, and inclosed the drafts in twelve letters. The return postage was 24 cents more. If the checks had been cleared through the St. Louis clearing-house they would have been sent to Clayton under one cover (four cents postage) and paid in one draft (two cents postage).

Twenty cents of unnecessary postage daily is \$60 annually. As much wasted on each of the 450 banking points in Missouri would be \$27,000 yearly. No such amount is wasted by St. Louis banks on Missouri letters; but, including the hundreds of points in other States and Territories, whither they send superfluous covers for want of concentration, they waste enough to demonstrate the need of clearing out-of-town checks as a measure of economy.

ELEVEN UNNECESSARY DRAFTS.

By sending twelve letters (as if from twelve separate St. Louises), which require twelve replies, containing twelve remittances, instead of mailing one letter, which requires but one reply, containing one remittance, the St. Louis banks compelled the Clayton bank to waste 22

cents in unnecessary postage (\$66 annually), write eleven unnecessary letters and draw eleven unnecessary drafts. Clearing out-of-town checks is needed as an act of consideration to the out-of-town banks.

"TYPICAL JOURNEY OF A COUNTRY CHECK."

Under the heading, "Typical journey of a country check remitted for a city account," the vice-president of a New York bank, in his work on clearing-houses, minutely describes the large amount of work required of the bank in which the check is deposited, what its regular correspondent in the city nearest the country bank has to do, and what the country bank does.* He supposes

*James G. Cannon: "Clearing-Houses," New York, 1900; pp. 68-72.

Every reflecting person who reads this account of a "typical journey," here quoted in full for ready reference, can not but be convinced that as clearing out-of-town checks will simplify and abbreviate the bookkeeping which the present methods of collection entail, it is sadly needed.

"A merchant in Massillon, O., buys a bill of goods in New York, amounting to two hundred and fifty dollars, and pays for the same with a check on his local bank. The New York jobber from whom the goods were bought makes the proper entries in his records for the check, upon its receipt by him, and deposits the check with his (New York) bank. The receiving teller of the bank in which the check is deposited, after checking it off the deposit slip, enters it, by amount only, in his record of out-of-town checks.

"Another clerk enters the check on a sheet headed with the depositor's name, stating date of deposit, place of payment, and amount for the purpose of making the proper charge thereon. The slip is sent to the jobber, advising him of the charge. The charge itself is made through a book known as the debits of exchange from which the bookkeeper posts the charge.

"A representative of the corresponding department of the bank receipts for the item on the receiving teller's record, after satisfying himself that the amount has been properly listed thereon. Another representative sorts the check with others on a sorting table, according to place of payment, and then stamps the bank's indorsement on the back of the check.

that a merchant in Massillon, O., buys goods in New York and pays for them with a check on his local bank. The New York jobber from whom they were bought deposits the check of \$250 in a New York bank, which makes him "the proper charge thereon" (25 cents). This

"The check is then laid on the collection enclosure sheet for transmittal to a Cleveland bank, since all Massillon items are collected through that channel by this particular New York bank. The check is next listed on the enclosure sheet, and the footing of the letter containing this item is charged to the collection account of the Cleveland bank.

"A record of the item is then made in the foreign cash register, under the account of the bank of Cleveland to which it is forwarded for collection. This record consists of the date sent, the name of depositor, the name of drawer, name of payer, place of payment, and amount, together with any instructions which are to accompany the item, regarding the handling of the same.

"After all these details have been completed, the name of the Cleveland bank is filled in on the indorsement stamp. A record is then made on the letter register, showing the name of the Cleveland bank, date when the collection letter is sent, and the total amount of the items contained in the letter. This record is made in order that the work of the bank may be facilitated in keeping track of its remittances, so that should an acknowledgment of the same not be promptly received, a tracer may be sent out without delay to secure the desired information. Manifestly, it is essential to the bank to know that all letters containing enclosures are promptly and properly acknowledged. An envelope is then addressed, the letter folded and enclosed, the envelope sealed and stamped, and finally examined to see that it is properly addressed, sealed, and stamped. The letter is then mailed at the New York Post-office.

"The Cleveland bank, on receipt of this letter, enters in detail upon its books those items contained in it which are payable outside of Cleveland. It then writes a letter to its Massillon correspondent, enclosing the two hundred and fifty dollar check for collection, makes a record of the letter and enclosure, addresses an envelope, in which are placed the letter and enclosure, and seals, stamps, and mails the letter.

particular New York bank collects all Massillon items through a Cleveland bank, and mails the check to Cleveland. The bank there forwards it to Massillon. The Cleveland bank next acknowledges the receipt of the item, by drawing and remitting a check on its New York correspondent for the amount, "less the usual charge for

"The Cleveland bank next acknowledges the receipt of the item, by drawing and remitting a check on its New York correspondent for the amount, less the usual charge for exchange. It writes a letter, enclosing the check, takes a record of the same, addresses an envelope, puts in the enclosures, then seals, stamps, and mails the letter.

"The check thus received by the New York bank is checked off the remittance letter, is stamped with the paid stamp of the collecting bank, is listed upon a slip with the other items received by the bank the same day upon the other New York bank on which the check received by it is drawn. The items thus made up are collected through the clearing-house. The paying bank checks off the items paid through the clearing-house from the slip on which they are listed, examines the check in question to see that it is properly drawn, dated, and signed, and that the signature is genuine, charges the check to the Cleveland bank's account on its books, cancels the check, enters the checks on a voucher-list, and at the end of a given period returns the check to the Cleveland bank.

"The Cleveland bank, upon receiving its account current, voucher-list and cancelled vouchers, immediately checks off the vouchers and verifies the statement of account. It then compares the checks with the stubs in the check-book, and examines the checks themselves to ascertain if the indorsements are correct or if any alterations have been made thereon, and at last files the checks away for future reference, including the one that has been used in this particular case under consideration.

"The letter from the Cleveland bank to Massillon, containing the item, is mailed the same day that the check is received from New York. It is received in Massillon the day following. After carefully examining the check to see that it is properly drawn and dated, and that the signature is genuine, the Massillon bank charges the check to its customer's account and then draws its check on Cleveland, less the usual charge for exchange, in payment of the same. It next writes a letter,

exchange" (say 25 cents). The Massillon bank, in turn, acknowledges receipt of its check by drawing and sending another check on its Cleveland correspondent for the amount, "less the usual charge for exchange" (say 25 cents). MUCH UNNECESSARY CLERICAL LABOR.

The author sums up that in order to collect this check, drawn on a country bank and remitted to New York in payment of an account, two checks had to be drawn, four letters had to be written, eight cents in post-enclosing the check, takes a record of the same, addresses an envelope, puts in the enclosures, and then seals, stamps, and mails the letter.

"The customer in due course has his account made up, checks off the cancelled checks returned by the bank from the voucher-list, compares the checks with the stubs in his check-book, examines the checks to ascertain if the indorsements are correct or if any alterations have been made, and finally files them away for future reference.

"The Cleveland bank, upon the receipt of the remittance from its Massillon correspondent, completes its records by filling in the date of the receipt of the remittance and the amount of exchange charged by the Massillon bank.

"The check thus received is listed by the Cleveland bank upon a slip containing all the items received by it the same day upon the other Cleveland bank on which the check is drawn. The items thus made up are then collected through the clearing-house.

"The paying bank checks off the items paid through the clearing-house from the slip on which they are listed, examines the check in question to see that it is properly drawn, dated, and signed, and that the signature is genuine, charges the check to the Massillon bank's account on its books, cancels the check, enters the check on the voucher-list, and at the end of a given period returns the check to its correspondent, the Massillon bank.

"The Massillon bank, upon receiving its account current, voucher-list, and cancelled checks from the Cleveland bank, immediately verifies the statement of account, compares the checks with the stubs in the check-book, and examines the checks themselves to ascertain if the indorsements are correct or if any alterations have been made in them, and finally files the checks away for future reference."

age were used, and seventy-five or more handlings of the checks were involved by a score or so of clerks, in five different banks, located in three different cities.

WHY SENT ROUNDABOUT.

To avoid such charges as those mentioned, many checks are sent upon more roundabout journeys and put through more banks in more cities. The reason is easy to understand. In the case of Clayton, to which suburb twelve St. Louis banks sent checks for collection (some days there are eighteen letters from St. Louis, other days only nine), the St. Louis County Bank remitted in payment the amount of the checks, less its usual charge for exchange, to every bank but one—its correspondent, to whom it paid the full amount. To this St. Louis bank Clayton is a par point. This bank at present is the only open door through which a check on the St. Louis County Bank, deposited in St. Louis, can be collected without charge to the collecting bank. This bank exchanges courtesies with the St. Louis County Bank and collects for it, free of charge, checks on all points in the United States. If a Clayton check is deposited in East St. Louis, Ill., and collected through Chicago, it will be paid in full; for the St. Louis County Bank does not charge for remitting to any bank in any place where Clayton checks are received at par.

LONG ISLAND CHECK PUT THROUGH TEN BANKS.

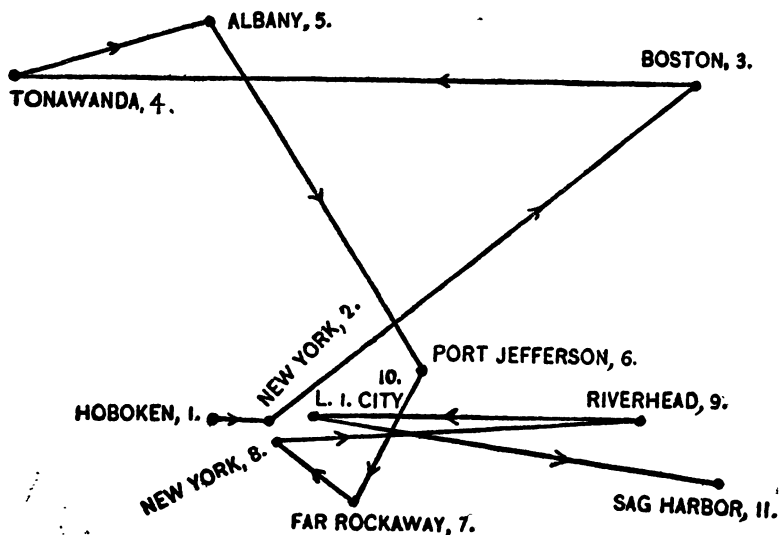
Such facilities for free collection must alter and often prolong the journeys of out-of-town checks. Mr. Cannon, on page 74 of his work, entitled "Clearing-Houses," gives a remarkable example of zigzagging a check from Dan to Beersheba, to avoid collection charges. He recounts the actual travels of a check which passed through ten banks in process of collection. He gives a fac-simile of the check and the indorsements that it received in transit. He prints a map showing the check's itinerary. The check, which was for \$43.56, was drawn

in Sag Harbor, N. Y., and paid to a Hoboken firm, who deposited it in the Second National Bank of Hoboken, N. J.

The date of the check was May 19, 1899. In the preceding month, on April 3, the New York City banks began to charge one-tenth of one per cent on Sag Harbor and other out-of-town checks. To collect it without charge, the Second National Bank of Hoboken sent it to a firm of private bankers, Harvey Fisk & Sons of New York, who, having no regular correspondent in the neighborhood, sent it, along with other collections, to their Boston correspondent, the Globe National Bank (233 miles). The Globe National Bank of Boston, for reasons that are not apparent, sent it, presumably with other items, to its correspondent at Tonawanda, N. Y.—that is, sent it the length of two States, Massachusetts and New York, from Boston Bay to the waters of Lake Erie, between Buffalo and Niagara Falls (509 miles.)

The Tonawanda bank, evidently realizing that the check had wandered far out of its course, and in an effort to get it nearer home, transmitted it to the National Exchange Bank of Albany (301 miles), which institution, to land it on Long Island, where it belonged, remitted it to its correspondent at Port Jefferson (200 miles). To reach Port Jefferson, it was carried in the mails through New York City, where it again found no helping hand. The First National Bank of Port Jefferson, who got possession of the check, again diverted its course by sending it across the Island in the wrong direction to the Far Rockaway Bank (70 miles). Far Rockaway being in Greater New York, the check could now be deposited in any New York bank without charge. The Far Rockaway Bank accordingly sent it off the Island, back to New York (22 miles), namely, to the Chase National Bank, and thus this much-traveled check made its second call on bankers in the metropolis—really its third visit on its journey homeward.

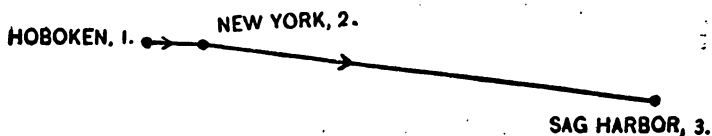
The Chase National Bank endeavored to correct the wanderer's course, and sent it on the Island again, dispatched to Riverhead, to H. M. Reeve (76 miles). Mr. Reeve, either because he really knew where to send it for collection or because of a lucky hit, forwarded it to the Queens County Bank of Long Island City (73 miles), which has its office on the East River, near the New York ferry, and which finally sent this tramping check home to the other end of the Island, to the Peconic Bank of Sag Harbor (100 miles), on which it was drawn. The accompanying diagram will show how the poor check was pushed along from station to station on its erratic course.



A check, drawn in Sag Harbor and paid to a Hoboken firm, visited New York, Boston, Tonawanda, Albany, Port Jefferson, Far Rockaway, New York again, Riverhead and Long Island City.

The reader may estimate for himself the volume of correspondence which this one check caused, from the time it was drawn in Sag Harbor until it was paid by the Peconic Bank there, and the amount of postage and cost of clerical work expended upon it.

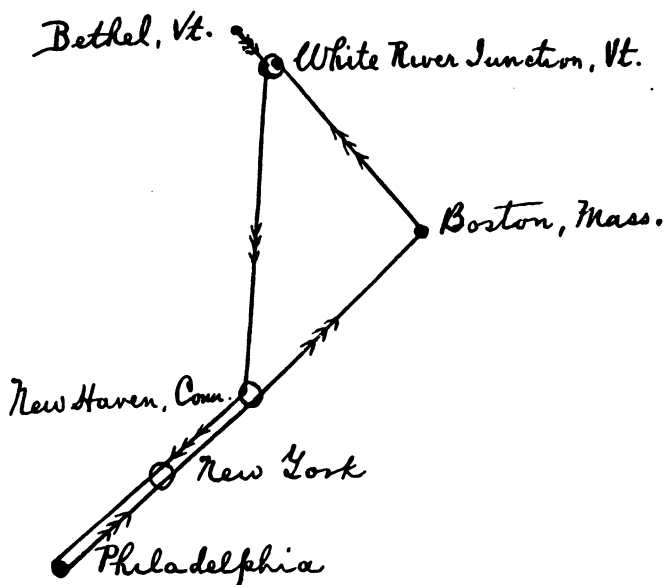
The check traveled for at least eleven days to reach its destination. It would have taken eleven more to return it if it had not been paid. If it had been cleared at the New York clearing-house, the check would have gone direct from New York to Sag Harbor, as shown in this diagram :



It would have reached the bank drawn on before the bank opened for business on the following morning. This would have saved ten days in time and 1,500 miles in travel. If unpaid, the check would have returned to Hoboken in two days instead of twenty-two.

The meanderings of this check appear so extraordinary that some think it a rare case without practical bearing. To remove this impression two more examples will be given of the same practice, parallel cases ; one from the East, the other from the West ; one starting and ending in Vermont, the other in Arkansas ; one wandering through every State in New England except Maine, through New York and New Jersey and into Pennsylvania, the other through Arkansas, Kansas and Missouri.

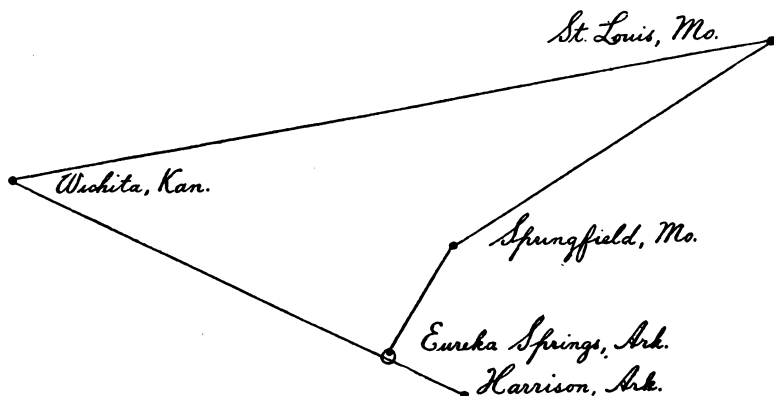
The National Bank of White River Junction, Vt., is one of the comparatively few banks in New England that charge for remitting to the Boston clearing-house and on whose checks, for that reason, the Boston banks charge for collection. To avoid this charge the Bethel bank sent White River Junction checks to Philadelphia,



Check on White River Junction, Vt., Collected Through Philadelphia and Boston.

because a Philadelphia bank would collect all New England checks without charge. The Philadelphia bank offered such terms because a Boston bank collected all New England checks for it free of charge, the Boston bank standing the expense of collecting on such charge places as White River Junction since the Philadelphia bank, in turn, collected at par for it all points in the United States outside of New England.

Harrison and Eureka Springs, Ark., like Bethel and White River Junction, Vt., are adjoining bank towns on



Checks on Eureka Springs Collected Through Wichita,
St. Louis and Springfield.

the same railroad. Harrison could collect at par checks on all points in the United States through Wichita, Kan. Why should it, then, send checks direct to Eureka Springs and be charged, as it surely would be? To avoid the charge the check was sent to Wichita, from there to St. Louis and then back to Springfield, Mo. How the Springfield bank fared, whether it escaped the charge or not, is not known. But that is immaterial, so far as our illustration is concerned.

TO FIND THE OPEN DOOR.

Avoidance of collection charges is the motive for shunting a check up and down the country. The check is hurried from bank to bank generally until it finds the open door to the bank on which it is drawn. The practice is not unusual. It applies to a large class of

cases, numbering thousands upon thousands, found in every part of the United States where checks are used. It is probably less common in New England than elsewhere, and ought to be, considering that most of the New England checks are cleared in Boston, free of charge. The practice must be widespread, otherwise the Chicago banks, for instance, could scarcely offer, as some do, to collect at par twenty-nine entire States of the Union.

I have heard of Alabama checks being sent from St. Louis to Chicago, from there to Philadelphia, from there to Atlanta, Ga., from Atlanta to Birmingham, Ala., and from there to some interior point; of Texas checks, sent through St. Louis, Chicago and Philadelphia to Galveston, and from there to some other Texas point; of Indian Territory checks, sent from St. Louis to Kansas City, from Kansas City to Chicago, and from Chicago south.

A DIRECT, ORDERLY METHOD WANTED.

This is no proper system. It is like groping in the dark. A direct, orderly method is wanted. And it is a pleasure to turn to the offer of the St. Louis County Bank at Clayton, which meets every requirement. This bank is willing and ready at any time to pay in full, without any deduction whatsoever, all checks on it deposited in St. Louis banks, provided they are received by St. Louis banks at par, without discount or charge to depositors, and forwarded to it under one cover. The banks in East St. Louis, and probably all in every direction around St. Louis, would do the same. Such an arrangement would necessitate the clearing of out-of-town checks. St. Louis would not be satisfied to confine such clearings to checks on banks in the immediate neighborhood. How to expand the St. Louis clearing district even far beyond the limits of Missouri may be learned

from the successful experience of other places, which will next be related.

SUMMARY.

In short, out-of-town banks show the need of clearing their checks

—by paying to have them cleared at the city clearing-house,

—by making them payable at city banks, and

—by offering to forego charges for the privilege.

Clearing out-of-town checks is needed to reduce the amount of correspondence and the cost of postage.

It is needed to reduce the number of handlings from many to few; to reduce the number of clerks that have to handle the checks; and to reduce the number of banks involved in collecting an out-of-town check.

It is needed to simplify the bookkeeping and cut off a redundancy of entries, many of them in banks not really concerned.

It is needed to spare the checks superfluous journeys, sometimes repeated without avail to the same city.

It is needed to abolish collection charges.

It is needed to establish order and do in a business-like, right way what is done in an improper manner.



CHAPTER III.

THE LONDON PLAN.

Out-of-Town Checks Indispensable—Effect of Railroads and Penny Postage—London Clears English and Welsh Checks—Proposed by Country Bankers—London Persuaded by Sir John Lubbock—His Rules—One Letter to Send Daily—One Entry Makes Payment—All Have London Agents—No London Indorsement Required—Special Clearing of Country Checks—Mailed, Accompanied by Lists—Paid Two Days Later—Names of London Clearing Bankers—Country Clearing Sheet—Country and City Balances Merged—"Returns" (City Items)—Country Checks Not Returned to Clearing-House—Right to Reclaim Reserved, in Case of Non-Advice—Payment of Balances—Checks Delivered without Lists at Clearing-House—Scotch Lists and Carbon Duplicates—Many Country Checks in London—How Induced to Pay in Full—Summary.

SOMEWHAT less than half a century ago London recognized the fact that the out-of-town check was an indispensable instrument of civilized man, at least in Great Britain. He would use it, contrary to custom and despite the remonstrances of city bankers who thought only London drafts should be sent to London.

EFFECT OF RAILROADS AND PENNY POSTAGE.

A product of modern times and methods, country checks came to London with the railroads. Few at first, when the average postage on a letter consisting of a single sheet was nine pence, and another sheet, or any inclosure, however small, doubled the rate, making the

postage on a letter inclosing a check 36 cents, on the average. With penny postage established in 1840, regulating the rate on a letter by its weight (one penny per half ounce), without regard to the number of sheets or inclosures, country checks began to stream into London.

LONDON CLEARS ENGLISH AND WELSH CHECKS.

In 1858 the city bankers, perceiving their inability to suppress or exclude them, decided to adopt the suggestion of some country bankers and collect English and Welsh checks through the clearing-house.

PROPOSED BY COUNTRY BANKERS.

The idea originated in the spring of 1858 with a young country banker, William Gillett, the son and grandson of country bankers. He visited the provincial banks and interested them in the project. When prepared to carry it out the country bankers met in London on September 29 of that year and communicated the plan to the London clearing bankers to obtain their support. The Londoners opposed it. They suggested doubts as to the utility and-feasibility of any change in the existing system. However, their co-operation being solicited, the London bankers held a meeting at the clearing-house on October 12 to take the matter into consideration, and appointed a special committee to confer with the country bankers.

LONDON PERSUADED BY SIR JOHN LUBBOCK.

Then, on reflection, it appeared to another young man, the son and grandson of clearing bankers, that the organization of a large and entirely new establishment, which the country bankers proposed, was unnecessary, as the London bankers could give them all the facilities they required without any great additional labor or expense. This junior officer, in the private bank of which his father was the head, has since gained world-wide celebrity in science and literature as Sir John Lubbock (now Lord Avebury). Even with the aid of such talents

and opportunities as his it required unflinching resolution to establish country clearing in London. After devising a method that conforms as closely as practicable to actual usage in clearing city checks, young Lubbock had to call at every London bank, at most of them several times, and explain fully the exact manner in which he proposed to carry out the system. It was very difficult for him to convince his brother bankers. Finally the special committee requested him to meet the principal clerks of the different banks. These clerks unanimously recommended the adoption of his plan.

The London bankers then adopted it, and on November 16 submitted it to their country correspondents. The plan for an independent country clearing-house was abandoned by the country bankers' committee on November 19, and the clearing of country checks commenced in London on November 23, 1858. In less than eight weeks after the idea was broached in London it was put in practice there.

The original description of the plan by Sir John Lubbock is found in the following rules, which were adopted as framed by him, and have now been in use for forty-four years:

RULES FOR THE CONDUCT OF A CLEARING OF
COUNTRY CHECKS IN LONDON:

1. A clearing to be held in the middle of each day for the interchange, among the London bankers, of checks on their correspondents in the country, placed in their hands for collection.
2. Each London banker to remit for collection to his country correspondents the checks drawn upon them, saying, "Please say if we may debit you £— for checks enclosed."
3. Country bankers wishing to avail themselves of this clearing, to remit their country checks to their

own London agent, to stamp across them their own name and address, and that of their London agent.

4. Any country bank not intending to pay a check sent to it for collection, to return it direct to the country or branch bank, if any, whose name and address is across it.

5. Each country banker to write by return of post to his London agent in reply, "We credit you £— for checks forwarded to us for collection in yours of —." Adding in case of non-payment of any such checks, "having deducted £— for check returned to Messrs. —, at —, and £— returned to Messrs. —, at —."

ONE LETTER TO SEND DAILY—ONE ENTRY MAKES PAYMENT.

By this system every country banker in England and Wales can present for payment any number of checks drawn on any of about 3,000 country banking offices by sending one letter to his London agent; he can receive payment therefor by one line in his London banking account, and can in the same manner make due payment for any number of checks drawn upon himself. The clearing is limited to checks or drafts payable on demand, and by the boundaries of England and Wales, being one night's mail from London. With only the most insignificant exceptions it embraces every bank outside the metropolis, from Land's End to the Tweed.

ALL HAVE LONDON AGENTS.

Every country bank has as London agent one of the clearing bankers, and the name of the agent is printed on its checks. Each country banker makes up daily all the checks drawn on other country banks which he has received and forwards them by the evening mail to his London agent, accompanying the parcel with a detailed list of the items. The London banker receiving them on the following morning, after examination of the parcels, sorts the checks according to the various clearing bankers

as agents of the banks drawn upon, and delivers the assorted checks at the clearing-house.

NO LONDON INDORSEMENT REQUIRED.

Since a country bank forwarding checks for collection stamps across them its own name and address and that of its London agent, no indorsement is required of the London banker. He acts purely and simply as its agent in delivering them at the clearing-house to the agents of the banks drawn on.

SPECIAL CLEARING OF COUNTRY CHECKS.

In London the clearing of country checks takes place at the same clearing-house, and in the same room as the clearing of London checks, but at different hours. London checks are delivered at the clearing-house in the forenoon from 10:30 to 11 o'clock, and in the afternoon from 2:30 to 4. Country checks are delivered and exchanged there from 12 noon to 1 o'clock.

MAILED, ACCOMPANIED BY LISTS.

When the exchanges have been made, the country checks received by each clearing banker are taken from the clearing-house to the office and sorted afresh according to the banks on which they are drawn. They are then entered in books and mailed without delay, accompanied by lists. The country bankers receiving them the next morning have the whole day for examination, and then, in the daily letter to their London agents, advise them to debit their account with the total, less checks returned unpaid. On receipt of this advice the London bankers are able to make payment at the clearing-house.

PAID TWO DAYS LATER.

The payment of city checks at the London clearing-house is made at 5 o'clock in the afternoon of the same day that they are cleared. It will be noticed that country checks are not paid on the same day they are cleared. No balances of the country clearings are struck until the

day next but one, when the head clearer of each bank in the London clearing-house prepares a balance-sheet composed of the various balances he has to pay or to receive on account of the checks exchanged two days before. The final balance between his own bank and the clearing-house is carried forward as an item in the general balance-sheet prepared at the close of the day's town clearing.

NAMES OF LONDON CLEARING BANKERS.

In explaining the general balance-sheet, I may mention that at present the London clearing bankers number only twenty-one, to wit :

Barclay & Co.
 Bank of England.
 Capital & Counties Bank.
 Glyn, Mills, Currie & Co.
 Lloyd's Bank.
 London & County Banking Co.
 London & Southwestern Bank.
 London & Westminster Bank.
 " " (Southwark).
 London City & Midland Bank.
 London Joint Stock Bank.
 Martin's Bank.
 Metropolitan Bank (of England & Wales).
 National Bank.
 National Provincial Bank of England.
 Parr's Bank.
 Prescott, Dimsdale & Co.
 Robarts, Lubbock & Co.
 Smith, Payne & Smiths.
 Union Bank of London.
 Williams Deacon's Bank.

COUNTRY CLEARING SHEET.

A specimen of the general balance-sheet will also serve to explain the balance-sheet of the country clearing :

The _____ Bank.

Debtors.

Creditors.

				Barclay	V	15	756	9	8	
				Bank						
				Capital and Counties.....						
				County						
				Glyn						
				Joint						
				London and Westminster..						
				Lloyd's						
				London and Midland.....						
				London and Southwestern.						
				Martin						
				Metropolitan						
				National						
				National Provincial.....						
				Parr's						
				Prescott						
				Robarts						
				Smith						
				Southwark						
				Union						
				Williams						
20	347	2	6	Country Clearing.....						
				C. H.....						

The balance-sheet of the country clearing resembles the above excepting the last two lines ("Country Clearing" and "C. H."), which are omitted. It contains only the names of the banks.

To fill it out, the clearing clerk or "clearer" of Martin's Bank, for instance, at his desk in the clearing-house, takes the first name. Upon looking at his clearing-books (at the London clearing-house checks are entered in books, not on separate slips), he finds Martin's has received £5,000 of country checks from Barclay and has delivered £4,000 to Barclay. He has more against him

than in his favor by £1,000. Hence, he is to pay Barclay that amount. He puts this balance in the right-hand column of the sheet, crediting it to Barclay. He treats all the banks in the same manner; from some he is to receive largely, to others he is to pay. When he has finished making up his sheet he takes his books with him and proceeds round the room to the different desks, calling the names of the banks he wants, to see if their balances agree with his. If Martin's is to pay Barclay £1,000, of course Barclay must be going to receive £1,000; hence, Barclay's clerk will have his balance on the opposite side, and so in the opposite column, to Martin's, the latter using his right-hand column, Barclay's his left. Should the balance agree, a tick is made in the narrow column to the right of the name on the sheet.

Having agreed with all the banks as to the balances, Martin's clerk adds the two columns and finds the left hand the larger by £20,347 2s. 6d. The other banks owe him that much more than he owes them, on account of the country checks exchanged. As the payment is postponed to the next day but one, he rests till then before carrying this difference or net balance to the general balance-sheet.

COUNTRY AND CITY BALANCES MERGED.

In making up this sheet into which the other is merged, the clerks of the different banks at the clearing-house proceed as before. Martin's clerk, let us suppose, now finds that he owes Barclay £15,756 9s. 8d., and upon comparing figures Barclay agrees with him. He agrees with all the banks that have balances to pay to or receive from him. Then he goes back to his desk and waits. He charges "Country Clearing" on the sheet with £20,347 2s. 6d., putting it in the left-hand column to the debit of "Country Clearing." He adds up both columns. The

sheet is now all but complete. Everything is accounted for except some returned items.

“RETURNS” (CITY ITEMS).

Banks in the London clearing-house will only accept checks from one another through the clearing-house. Unpaid checks may be returned through the clearing-house from 2:30 to 4 p. m., and also, after the deliveries of checks cease, from 4 to 5, when the proof is being made. All the items in the last deliveries are necessarily taken away and examined at the counters of the banks after 4 o'clock, and any they will not pay are despatched forthwith back to the clearing-house. Martin's clearer at once enters any from it on the “debtor” side (left-hand side) of his sheet, at the end after the footing, as so much more in his favor, and finally adds up that side. As soon as entered, the “returns” are distributed just in the same manner as are the deliveries in the afternoon. As the clearer sits at his desk he receives the returns sent to him by other banks, and these he enters on the creditor (right hand) side of the sheet as so much more against him. At five minutes past 5 the bell strikes, the clerk runs up the sheet, footing it finally, and strikes the balance. It is thus impossible to know the fate of any check on a London clearing banker until the last returns are back. This is about 5:10 p. m. on an ordinary business day (Saturday, 3:40 p. m.), a quarter of an hour later on certain days, and half an hour later twice a month on the settling days of the London Stock Exchange.

CHECKS NOT RETURNED TO CLEARING-HOUSE.

Unpaid country checks mailed direct by one country bank to another, as they do not return to the clearing-house, are charged back by means of debit vouchers distributed among the clearing bankers who delivered the checks at the clearing-house.

RIGHT TO RECLAIM RESERVED, IN CASE OF NON-ADVICE.

It is the custom to allow two clear days for clearing country checks through the London clearing-house. In

ordinary circumstances this allowance would be sufficient. As the London bankers pay for the checks, whether heard from or not, on the next day but one after exchanging them, the right must be reserved to reclaim the amount of any check not heard from and subsequently advised unpaid. For this purpose they have a system of "protest" payments which add one or two days to the actual time allowed. In case of non-advice, letters delayed, or any irregularity in advices from country bankers, the London agents immediately notify on the notice-board at the clearing-house that all such checks are paid under protest. This protects the protesting banker in the event of any check being returned after the usual time. Thus, unless the London banker advises, day by day, all clearing-house protests, the country banker may have returned to him checks which had been treated as duly paid.

Some branch banks allow three days for clearing country checks; but this does not cover the time limit, as London protests are often carried on to a second day.

PAYMENT OF BALANCES.

The payment of balances at the London clearing-house, including the balances of country clearings, is made by checks or drafts on the Bank of England, in which all the clearing bankers keep accounts; for in 1854 the joint stock banks, upon becoming clearers, opened accounts with the Bank of England, which till then would have no account with them.

Each clearing banker has to agree with the Inspector of the London clearing-house as to the net amount due to or from the clearing-house. The Inspector makes the proof from the balance-sheets and tickets left on his desk by the several clearers.

All the bankers with balances to pay give checks on the Bank of England, and all the rest having balances to receive draw on the Bank of England for the amounts,

which are then passed to their credit. These checks and drafts have to be properly indorsed or countersigned by the Inspector of the clearing-house.

CHECKS DELIVERED WITHOUT LISTS AT CLEARING-HOUSE.

One peculiarity of the London clearing-house is that checks to be cleared are entered in bound books and delivered at the clearing-house pinned together or tied up in bundles without lists accompanying them, the total of each package being entered on the back of the last article. The checks are again entered in another set of books at the clearing-house by the receiving bank, those in each bundle by themselves, and footed for comparison with the footing on the back of the bundle. For the first or morning clearing all checks have to be delivered before 11 o'clock; and to give more time for entering them at the clearing-house, some are delivered as early as 10 o'clock; but they are delivered continuously from 2:30 to 4, and continuously entered in books as received.

SCOTCH LISTS AND CARBON DUPLICATES.

In Scotland clearing banks save much of this labor by keeping a book with perforated leaves for each bank, so that by the use of a pencil and carbon paper a duplicate is retained. The list is made out for each bank, and being affixed to the checks themselves, is delivered on the desk of the bank on which they are drawn. This obviates the necessity of entering them again.

MANY COUNTRY CHECKS IN LONDON.

The number of country checks is so great that the banks most largely engaged in their collection, not having accommodation at the desks of the clearing-house for a sufficient number of clerks to enter all the checks expeditiously, have the deliveries, for mutual convenience, made at their counters. The amounts of such deliveries are reported at the clearing-house to make and prove the balance-sheet. As it is, though the checks are exchanged

from 12 to 1 o'clock, the country clearing keeps the clerks busy entering and agreeing at the clearing-house until 2:15 p. m.

The London method should be so improved that all the country checks could with advantage be delivered and exchanged at the clearing-house.

HOW INDUCED TO PAY IN FULL.

Sir John Lubbock, who really introduced country clearing in London, thus relates, in his account of its establishment, how the non-par banks of England and Wales were induced to remit at par:

"Some country banks were in the habit of charging commissions. Although the majority of country bankers paid in full for checks drawn upon them, there were some large establishments whose custom was to deduct a small percentage. The amounts thus retained were indeed trifling, probably on an average not exceeding a shilling each, still in the aggregate they reached a considerable sum, and the manager of one large country joint stock bank informed me that in the case of his own bank they came to £600 a year.

"The country banks which had been in the habit of charging these commissions, were naturally loth to abandon a source of profit which required no outlay of capital, and involved no risk of loss; and in some cases it was only by insisting that all checks should either be paid in full or returned to the holders, that the system was broken through. The greater number, however, of the banks which had until that time charged these commissions, voluntarily and very considerably ceased to do so, when it was pointed out to them how much inconvenience was caused by the practice."

SUMMARY.

To sum up, the clearing of out-of-town checks in London is as common and considered as much a matter of course as clearing city checks.

Established with some difficulty, now used for a long time (upwards of half a century) throughout a territory of considerable extent, and availed of by thousands of country banks, it has become a permanent in-

stitution, though conducted with some unnecessary labor for want of an improved method.

Every bank in England and Wales has, for either its head office or agent in London, one of the clearing bankers. In each case the London office acts as an agent, treating the country bank as a branch, and so the transaction of crediting and debiting is carried on in almost exactly the same way as between a bank and its branch in the city.

Unpaid checks returned direct by one country bank to another are upon advice charged back through the clearing-house.

Payment on account of the country clearing is made on the next day but one upon advice by simply debiting the country bank with checks drawn on and remitted to it while crediting it with those received for collection on the same date.

Clearing bankers adjust their accounts on the next day but one by carrying their country clearing balances forward as items in the settlement of that day's city clearing.

The settlement is made with a reservation of recourse on unpaid country items not yet returned or advised.

No check on which "commission" or exchange is charged can be collected through the country clearing of London. Refusal to handle such checks established universal remittance at par throughout England and Wales.

London is, then, one place where country checks have long been cleared as successfully as city checks.

CHAPTER IV.

THE SEDALIA PLAN.

Sedalia Clears some Missouri Checks—Like the English Provincial Plan—English Clearing Circles—The Sedalia Clearing District—How Established—Sedalia's Method—Its Advantages—Other American Examples (Fargo, Pittsburgh)—Summary.

SEDALIA CLEARS SOME MISSOURI CHECKS.

SOME are surprised to learn that an enterprising city in the westerly portion of Missouri, with a population of only 15,231 in 1900, clears out-of-town checks, and in this respect surpasses Chicago, Philadelphia, New York and other large cities of the United States. Boston, Mass., clears them, but did not before Sedalia, Mo. The honors are divided. It is well that this praiseworthy bud of western banking has bloomed like a new rose on the prairie where it was not supposed to grow.

LIKE THE ENGLISH PROVINCIAL PLAN.

The Sedalia bankers unconsciously imitated the London plan, but modified it as had been done abroad elsewhere; for out-of-town checks are cleared not only in London, but also in other English cities, as Manchester, Liverpool, Birmingham, Newcastle-on-Tyne, Leeds, Sheffield and Bradford, in some eight Scotch towns, and Dublin.

The establishment of clearing-houses in English cities outside of London did not take place until 1872, nearly twenty years after their origin in America. And in 1872 London, with a clearing-house about a century old, had been clearing country checks for some fourteen years. The new clearing-houses profited by the adoption of a

more modern method for city clearings in New York and the extension of clearing to out-of-town checks in London. The effect of these influences was apparent from the start. New features were also introduced.

In the provincial clearing-houses of England the checks are not entered in account books, as in London, but on slips; a separate slip for each bank, as is the custom in America.

The Newcastle-on-Tyne clearing-house, established in 1872, has this rule:

"The accounts of country members shall be credited and debited with the articles on the day on which they pass through the Newcastle Clearing House; all checks forwarded by post, however, being considered as only paid provisionally.

"Checks on any banker, who is not a member of the Association, may be cleared through a member in the same town, according to the arrangements notified in the official list."

In London the payment is on the next day but one after the checks pass through the clearing-house, and the country bank is then credited for checks received from it two days before. At Manchester, Birmingham, Leeds, etc., the accounts of country members are credited and debited with the checks on the day on which they pass through the clearing-house. This modification of the London plan was adopted at Sedalia.

As in London, it is a rule of English provincial clearing that every check shall bear the name of the remitting bank distinctly stamped upon it. By the London plan country checks are stamped not by the London clearing banker but by the country banks who send them to London for collection.

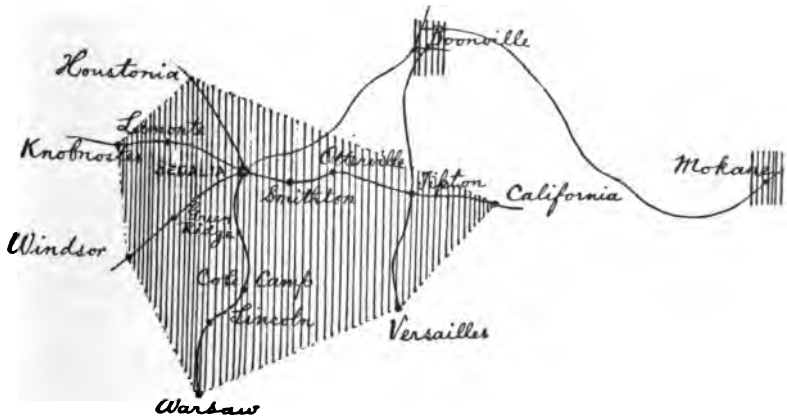
Another rule of the provincial clearing-houses is that unpaid checks payable at offices within the country clearing are returned, by mail, on the evening of the day of receipt at the paying office, direct to the offices from which they originated and whose stamp they bear; and the pay-

ing office mails debit vouchers to its head office or agent in the city, who sends through the next clearing "return tickets" payable at the offices to which the returns are made. This is about the same as in London, where country checks, if not paid, are returned to the country banks who stamped them and sent them to London for collection, the London agent being only advised of their return.

ENGLISH CLEARING CIRCLES.

The official list of the Newcastle clearing-house in 1895 shows that its eleven members had one hundred and sixty-five branches, located in ninety-one cities and towns, stretching north fifty miles to the northeasterly extremity of England (Berwick-on-Tweed), south a hundred miles, and west across the island. At Sheffield the local clearing circle has a smaller radius of some twenty-five miles. At Newcastle-on-Tyne country members may remit to the Branch Bank of England, Newcastle, checks on all members of the Association and on provincial towns where the Bank of England has branches, and (on a separate list) bills of exchange or drafts payable in Newcastle. On the other hand, Newcastle members may present as cash to the Branch Bank of England, Newcastle, checks on all country members of the Association, and on provincial towns where the Bank of England has branches. These branches are located at Birmingham, Bristol, Hull, Leeds, Liverpool, Manchester, Plymouth and Portsmouth. The last two are on the English Channel; therefore, further than London from Newcastle. Hence, country collections through Newcastle are not confined to points in the immediate vicinity, but extended to some distant places. All country checks on England and Wales not collectible through a local country clearing are collected through London. Some country banks thus use two clearing-houses; and some, possibly, three.

Nothing was known in Sedalia of all this that had been done in England. No study was made of these foreign institutions, described in English works. A practical question of banking had arisen, and it was pursued along independent lines without thought of experience or results in other times or places. The success of the plan evolved goes to show that the clearing of out-of-town checks is of universal applicability.



SEDALIA CLEARING DISTRICT.

At Sedalia, Mo., the clearing circle has a radius of some thirty miles, with two points outside, one at a distance of 102 miles by rail. There are fifteen points, all located on railroads, thirteen of them being the nearest bank towns to Sedalia on their roads at distances ranging from 7 to 44 miles by rail and averaging 23. At the fifteen points there are twenty-two banks with an aggregate capital of \$765,000 (average \$35,000), and aggregate surplus and profits of \$227,000 (average \$10,000). Excepting one with a capitalization of \$200,000 (surplus and profits \$72,000), the capital ranges from \$10,000 to \$60,000, with an average of \$27,000.

The following table gives the names of the points cleared through Sedalia, their population in 1900, their distance by rail from Sedalia, the number of banks in each, the banks' capital, surplus and undivided profits in July, 1902.

MISSOURI POINTS CLEARED AT SEDALIA.	Population in 1900.	Distance by Rail from Sedalia. Miles.	BANKS.		
			Number	Capital.	Surplus and Profits.
Boonville.....	4,377	35	3	\$200,000	\$ 72,000
“				50,000	14,000
“				50,000	15,000
California.....	2,181	38	2	60,000	9,000
“				50,000	17,000
Cole Camp.....	648	19	1	25,000	3,000
Green Ridge.....	389	12	1	11,000	3,000
Houstonia.....	307	25	1	25,000	6,000
Knobnoster.....	673	20	1	30,000	1,000
Lamonte.....	637	13	1	20,000	4,000
Lincoln.....	357	30	1	20,000	6,000
Mokane.....	331	102	1	10,000	4,000
Otterville.....	384	13	1	10,000	2,000
Smithton.....	420	7	1	12,000	2,000
Tipton.....	1,337	25	2	25,000	4,000
“				12,000	1,000
Versailles.....	1,240	44	2	30,000	10,000
“				15,000	4,000
Warsaw.....	743	42	2	20,000	22,000
“				20,000	11,000
Windsor.....	1,502	21	2	40,000	13,000
“				30,000	4,000
Total.....	15,526		22	\$765,000	\$227,000
Average.....	1,035	29		\$ 34,772	\$ 10,320

HOW ESTABLISHED.

The first step toward the clearing of out-of-town checks at this railroad centre in Missouri was the organization of the Sedalia clearing-house in 1893 by its then five banks. The membership, reduced by consolidation, consists at present of three national banks with a capital

of \$100,000 each, and surplus and undivided profits aggregating \$74,000 in July, 1902.

Soon after beginning the clearance of checks on one another the Sedalia banks commenced to turn their attention to the possible handling of out-of-town checks in a similar manner. It was observed that a country bank some few miles down the line would have reciprocal accounts with all of them and receive checks from all, which it required five letters to forward. The Sedalia bankers altogether would have more checks on this bank than it would have on them. It would be constantly in their debt. Finally the Sedalia bankers informally proposed that the bank should keep a balance with some one of them, on which interest would be allowed and against which any checks drawn on the bank could be charged. At the same time any checks forwarded to Sedalia by the bank for collection would be credited to its account at par without any charge whatever and with interest allowed on the resulting balance. Gradually such arrangements were made with the surrounding banks and completed about 1895, possibly later: the exact date can not be given.

SEDALIA'S METHOD.

The arrangement is practically the same as in an English provincial clearing-house where it has been thoroughly tested and approved for thirty years. When a check on one of these out-of-town banks is received by its Sedalia correspondent the amount is charged out of its account and the check mailed to it in the afternoon of the same day. If the check is received by another Sedalia bank in the morning mail it is presented to the country bank's correspondent at the clearing-house and paid there as if it were the correspondent's own check. The correspondent charges it against the country bank's account and forwards it in the afternoon. If the other Sedalia bank receives it not in the morning, but later in

the day, it is held over and presented at the clearing on the following business day.

If for any reason the out-of-town bank declines to pay a check it returns the same to its correspondent, who duly credits it and, if the check was cleared, at once collects the amount upon delivery at the counter of the other Sedalia bank that put the check through the clearing.

ITS ADVANTAGES.

By clearing the checks Sedalia is able to forward them to each out-of-town bank in a single letter instead of several. Payment is obtained, as a rule, at once in Sedalia before mailing the checks. The out-of-town banks, instead of being in debt to Sedalia as formerly, now keep from \$150,000 to \$200,000 on deposit there. Each out-of-town bank is, in effect, a branch, not only of its correspondent, but also of every bank in Sedalia. The advantage is mutual. Checks on these out-of-town banks are the same as Sedalia funds and received at par from depositors. Sedalia supplies the outlying banks with currency. Benefits are enjoyed by the members of the clearing-house, customers and correspondents. The clearing of country checks does great honor to the out-of-town banks that have assented to it as well as to its organizers—the Sedalia banks.

OTHER AMERICAN EXAMPLES (FARGO).

Clearing out-of-town checks at another point in the West is reported by Cannon ("Clearing-Houses," p. 51):

"At Fargo, N. Dak., the unusual custom prevails of sometimes clearing, in addition to the checks on city banks, items for out-of-town correspondents. For instance, Bank A sends through the exchanges to the other members the items which it has received on their correspondents; and the other members, in turn, clear the items which they hold on A's correspondents."

PITTSBURGH.

There are intimations of similar clearings in other parts of the country. A tendency in that direction is

manifested in Pennsylvania by the Pittsburgh Clearing House, whose members clear for one hundred and twenty-five outside banks, trust companies, bankers and post-offices, located for the most part in the city, but also at some twenty-five points in the suburbs. The business is conducted as a city clearing, with the exchanges of checks and the settlement on the same day, and, in general, with the return of unpaid items on that day. In respect of returning items, however, four places are excepted, to wit: Braddock (10 miles from Pittsburgh), Homestead (7 miles), McKeesport (15 miles), and Sharpsburg (5 miles), which are required to return dishonored checks, drafts and notes, before 11 o'clock a. m. of the following day. This somewhat approaches out-of-town clearings, which, unless some delay in returning unpaid items is permitted, must be restricted to mere suburbs or points so close that the clearing-house is readily accessible during bank hours.

Twenty years before Sedalia cleared out-of-town checks, Pittsburgh went further than at present. It is said that Pittsburgh cleared them for about ten years from 1875 to 1885. There was no recognized system, no publicity, no stated rules, no agreement with the outside banks. They were not consulted. To accommodate one another the city banks established the custom of exchanging checks on their correspondents and forwarding the same in their own letters. As the checks were not stamped or indorsed for the purpose, the correspondents could not tell which had been received by the city bank from its customers and which received in exchange from other city banks. Competition between Pittsburgh banks at last broke up this scheme of mutual accommodation. Its reappearance in Sedalia confirms the sensibleness of the arrangement. It is too good to be permanently abandoned or suppressed. A general revival of out-of-town clearing is at hand.

The procession in America has started. The next chapter will demonstrate it beyond a doubt.

SUMMARY.

To sum up, Sedalia reproduces the London plan of country clearing as modified in the provincial clearing-houses of England.

Sedalia, Manchester, etc., pay for out-of-town checks the same day they pass through the clearing-house, subject to return of unpaid items, whereas London pays two days after they pass through and then subject to return of any unpaid items not yet returned or advised.

Sedalia shows, as positively as London and Manchester in the Old World, that out-of-town clearings are practicable in the New World, west of the Mississippi.

In a land of vast expanses Sedalia's field of operation is almost diminutive, not to be compared with that of Newcastle-on-Tyne, covering the whole North of England. Sedalia's banks and their correspondents, in number and resources, its transactions in volume, are insignificant, but the quality of its country clearing is unsurpassed and exemplary.

Essentially the same plan has been tried elsewhere in the United States.

The Sedalia system appears to be the proper touchstone for out-of-town clearings in Missouri and the West.



CHAPTER V.

BOSTON CLEARS NEW ENGLAND CHECKS.

Planned to Work Without Aid from Opposition—Deadlock Lasting Twenty-one Years—Successful Movement of 1898 Originated Outside—How the Deadlock was Broken—London Plan Recommended for Majority—A Substitute for Absent Members—Indispensable No. X—No. X has to Do it All—Currency and New York Exchange Accepted—Begins and Spreads Throughout New England—Free Zone of New England—Charging Exchange in a Clearing-House Absurd—No Charge on Checks Paid in Full—Few Non-Par Banks—Whole States in Free Zone Desirable—To Secure Par Remittance—(1) Return the Checks Uncollected—(2) Have No Free List for Non-Par Banks—(3) Collect by Express—Paying in Silver to Retaliate—Boston Correspondents Helped Non-Par Banks—Free Transportation of Silver Abused—Expense of Collections by Express—Why Boston Correspondents Favored Non-Par Banks—When a Majority of Banks did not Count—How Boston Handled Tons of Silver—Summary.

IN clearing out-of-town checks Boston did not imitate London or Manchester. It could not. Peculiar circumstances prevented. The Boston plan is radically different. It had to be. Suppose several London bankers, the agents of many country banks, had refused to receive at the clearing-house and forward checks on their correspondents in 1858. What would have become of the London plan? It would have been abandoned, and the

country bankers would have established, as they were ready to do, a clearing-house for themselves in London on another plan, somewhat like Boston's.

PLANNED TO WORK WITHOUT AID FROM OPPOSITION.

Important banks in Boston opposed the clearing of New England checks. They would not consent or co-operate. A plan was required that would work without their assistance. The plan devised answered the purpose. In the end only one bank declined to participate. It stayed out over two years. And it was a bank with more New England correspondents than any two of the other banks in Boston. The plan was designed to invite and win support, remove obstructions, disarm or overcome opposition.

DEADLOCK LASTING TWENTY-ONE YEARS.

For a score of years the opponents had frustrated every plan. In 1877, during an exceedingly depressed condition of banking affairs, reflected in reduced dividends and shrinking surplus, a committee of the Boston Clearing House Association reported that the business of making collections throughout New England was attended with great unnecessary labor, risk and expense; that the extent of the business would inevitably increase with the growth of the city; and that the only way materially to reduce the labor, risk and expense was to consolidate the business. The majority conceded that a clearing-house for country checks, similar to the existing one for city checks, might, on some accounts, be desirable; but, yielding to a fanciful contention of the other side, they thought their Association not the kind of partnership that could properly collect New England checks. They recommended the organization of a national bank for the purpose, the stock to be subscribed by the associated banks—a plan which was subsequently acknowledged to be prohibited by act of Congress. One member of the committee vigorously

attacked the whole project, root and branch, in a minority report which, though destitute of valid argument, produced a deadlock that remained unbroken for twenty-one years.

In 1883 they tried again: another committee reported; the Association this time adopted a constitution, and, according to the printed record, everything was done apparently but putting a plan into operation. Other efforts, which left no public trace, also failed. The only result was a growing sense of hopelessness.

SUCCESSFUL MOVEMENT OF 1898 ORIGINATED OUTSIDE.

A new force had to be injected. Finally the successful movement was brought to Boston in 1898, as to London in 1858, from outside, being started among the country banks.

The originator and promoter of this movement was the writer. I described in the *Boston Herald* of December 14, 1898, how it came to be proposed.*

HOW THE DEADLOCK WAS BROKEN.

Soon after my arrival in Boston, upon grasping the situation, I proceeded systematically to break the deadlock.

*"The inception of this movement was to my knowledge as follows: On May 2, 1898, a bank officer in Providence, R. I., hearing of my father's connection with the introduction of the clearing house into America, asked me if he had paid attention to the subject of country clearings. He had not particularly. But the inquiry set me to thinking, and the next morning I offered to submit a plan for use in Providence. Though the banker then gave me reasons why his city could not be expected to start such a reform, he said if I thought I could solve the question for the whole country, by all means to go ahead and do it. In May and June I submitted a plan to over thirty banks in Connecticut, and, after posting myself as to the situation in New York, I came to Boston—the financial centre of New England. The movement then, which has culminated in a vote of the Boston Clearing House Association to establish at once a system of clearing New England checks, was suggested to me by a bank officer in Providence, R. I., advanced by me in Con-

The matter was taken up where the Boston banks had left it in 1883. According to the printed constitution then adopted the plan of that period had for fifteen years only awaited the assent of twenty members of the Boston

necticut, and developed in Boston, where the subject was known to have received consideration for many years. Thus, inaugurated in the country outside of Boston, the present movement spread to this city.

"This movement is of a piece with that which introduced the clearing house into America. Just as I have been quietly going about from bank to bank in Boston for the past five months to consult with bank officers and devise a plan in accordance with their views, my father forty-six years ago went about from bank to bank in New York from the fall of 1852 to the following spring; and on April 8, 1853, his plan of city clearings was accepted by a committee of bank cashiers, as my plan of country clearings practically was on December 7, 1898, by the Boston Clearing House Association. My first recollection of a clearing house goes back to 1854, when my father was the assistant manager of the New York Clearing House, which had commenced operations on October 11, 1853. As a little boy of seven years I was very much surprised one evening when some twenty-five bank clerks came to my father's house and presented him with a silver pitcher, which, suddenly revealed to me in our plain Quaker home, was a dazzling object; and, first seen on the parlor table, surrounded by what seemed to me a multitude of strangers, who were evidently the donors, it made a lasting impression upon my mind. Afterward I learned that the clerks had addressed him in writing as 'the Originator of the Clearing House,' meaning its originator in America.

"The second American city to have a clearing house was Boston, where his plan was adopted in 1856. Philadelphia adopted it in 1858. Consequently his plan has been used in New York some forty-five years, in Boston forty-two, and in Philadelphia forty years. Gradually clearing houses have been established in all the principal cities of the United States and Canada. But up to the present time bank clearing houses have been restricted in America to institutions in cities and their suburbs. It is the enlightened policy of the Boston banks to extend the well-known advantages of a clearing house to every bank in New England, however distant from Boston."

Clearing House Association to become operative. Ignoring this particular plan I undertook to obtain a general assent to the proposition. Forty-two banks, constituting 84 per cent of the membership, signed the following declaration :

"Whereas, the present system of collecting country checks is wholly inadequate to meet the requirement of the large and increasing volume of business transacted daily by the use of such checks; and

"Whereas, this system, as conducted hitherto, entails great expense and loss of time;

"We, the undersigned, hereby signify our willingness to improve the system and our desire for the immediate adoption of a plan whereby such checks may be collected through the Boston Clearing House, this mode of collection requiring only the consent of the banks to become operative at once."

This paper reduced the opposition nominally to eight out of the then existing fifty members.

LONDON PLAN RECOMMENDED FOR MAJORITY.

The next thing to do was to devise some plan that would satisfy the majority and would work, if necessary, without the co-operation of any dissenting members. To frame such a plan I had three stated conferences with seven able bank officers who could, in an informal manner, well speak for the Boston Clearing House Association. Seeing that the Boston banks were divided into two unequal groups, I recommended that the majority should, after the London plan, send clerks daily to the clearing-house at a convenient hour to interchange checks on their New England correspondents, have the clerks bring back the checks received there, and transmit them to the country banks, settling two days or so later through the regular city clearing upon advice of payment or return of unpaid items.

A SUBSTITUTE FOR ABSENT MEMBERS.

Further, I proposed as a substitute for any absent members the manager of the Boston clearing-house, who,

always present at the interchange of New England checks, was to receive any drawn on correspondents of members not represented in the country clearing, collect the same and distribute the proceeds, when received, through the regular city clearing. The abstaining members might be one or twenty, their New England correspondents few or many; in any case, the manager would be there to collect and account for all the checks left with him for want of another receiver. By this plan every check on a New England bank could be collected through the Boston clearing-house, being presented in the country clearing either to the Boston bank on whose correspondent it was drawn, or to the manager, for transmittal and collection.

INDISPENSABLE NO. X.

In order to install this new and useful member properly, I proposed that the manager be considered a clearer like any bank in the clearing-house; and, as the members are numbered, that he be known as No. X.* It was found necessary, as I suggested, to make the clearing-house (as it were) a member of itself, though the

*The following paragraphs of my printed plan are the principal ones referring to the duties of the manager as No. X:

Manager may act for a Bank.

3. To save any Boston bank clerical labor in the country clearing, the Manager of the Clearing House to act for that bank in receiving checks on its correspondents and forwarding them to the country banks.

Checks on Non-Conforming Banks.

17. Checks on any country bank that refuses to conform to the above rules, to be brought to the country clearing and delivered to the Manager of the Clearing House for collection.

18. Under direction of the Clearing House Committee, the Manager to arrange, with one bank in every place where there are two or more, for the presentation and collection of checks on any bank or banks refusing to settle according to the rules of country clearing. In case of inability to make this arrangement and in places containing only one bank, the Manager to collect checks on non-conforming banks through an express company.

Association saw fit to designate this invaluable but purely artificial member, this figment of bookkeeping, No. 100. It requires three Arabic numerals to express one hundred, three syllables to pronounce it. X requires only one sign and one syllable. Performing three acts where one will suffice is a waste of two. The true aim of a clearing-house is the greatest economy possible, maximum of achievement with minimum of effort, work without waste, without unnecessary steps, without time or labor lost upon the unessential. A clearing-house should, in every detail, be a simple instrument of absolute precision.

The Manager's Collections.

19. All checks, delivered to the Manager in the country clearing, to be assembled by him in one parcel for each country bank and either mailed to the country banks or delivered to the express company for collection. All items collected by the Manager to be entirely attended to and settled for by him.

20. Items on banks without Boston correspondents to be delivered to the Manager and mailed by him to such banks as agree to remit Boston funds or drafts on New York; otherwise, to be collected through him by express.

The Manager as No. X.

21. In order to treat checks delivered to the Manager like those delivered to banks, and to facilitate his settlements in the country clearing, the Manager to be considered a clearer like any bank in the Clearing House. The Manager to be known as No. X, to be represented by two clerks and to have for his desk the last in the row, consequently his name and number to come always at the bottom of the list after the banks.

22. In case of collections for a Boston bank which has the Manager act for it, the Manager to receive from the country bank a check on its Boston correspondent for the amount of the checks forwarded, after deducting those returned. Every such check received from country banks in settlement to be presented by the Manager in the city clearing on the bank on which drawn.

New York Exchange.

27. All New York exchange received by the Manager to be disposed of by him in the morning at the Clearing House to its members, any question arising to be referred to the Clearing House Committee for adjustment.

This plan was printed by me on November 15, 1898, and submitted to the Boston banks. They met on December 7, 1898, resolved that in the opinion of the Association it was expedient to establish a system of clearing New England checks at once, and appointed a special committee who, on February 2, 1899, addressed a communication to all the banks in New England, which elicited many favorable responses.

NO. X HAS TO DO IT ALL.

Again, on April 14, 1899, the committee, thinking it wise to begin this work with the State of Massachusetts, addressed the following communication to the Massachusetts banks:

"To meet certain objections and requests it has been considered expedient to modify the plan heretofore suggested for a system of clearing New England checks, and to have all the work done through the Boston Clearing House instead of through the correspondent banks in Boston. The Committee therefore begs to ask, if, on receiving from the Manager of the Boston Clearing House in one letter, checks on your bank received on deposit in Boston banks represented in the New England Clearing House, you will send by return mail, to the Manager of the Boston Clearing House, a draft on your Boston correspondent for the amount of such checks at par."

Meanwhile, upon the adoption of their report and the discharge of the special committee, the constitution of the Boston Clearing House Association had been amended in accordance with their recommendations.*

CURRENCY AND NEW YORK EXCHANGE ACCEPTED.

On June 1, 1899, the clearing-house committee, who now had charge of the matter, deferring to the wishes of some Massachusetts banks to be allowed the option of paying their checks by remitting Boston or New York funds or currency, consented to permit it, if the volume

*The objects of the Association were enlarged to include "the collection of checks and other items drawn upon and payable by banks, bankers, and trust companies throughout the New England States, and the distribution of the proceeds thereof

of currency and of New York exchange should prove not so large as to make the cost to the Boston banks excessive, and with the understanding that each bank would endeavor in good faith to make the remittances, so far as possible, in Boston exchange.

BEGINS AND SPREADS THROUGH NEW ENGLAND.

On June 8, 1899, the clearing of out-of-town checks began at the Boston clearing-house, the manager receiv-

to the members to whom they belong; but the Association shall in no wise be responsible * * * * for the solvency of the banking institutions on which checks and other items entrusted to it for collection may be drawn; nor for the solvency of whatever collecting agents may be employed. (Sec. 2).

"The responsibility of the Association is strictly limited to the faithful payment to and distribution among the members by the Manager and the other persons employed by the Association at its office in Boston of the money and checks actually received by them under this constitution; and should any loss occur from his or their failure or neglect in this respect it shall be borne as follows:

* * * * *

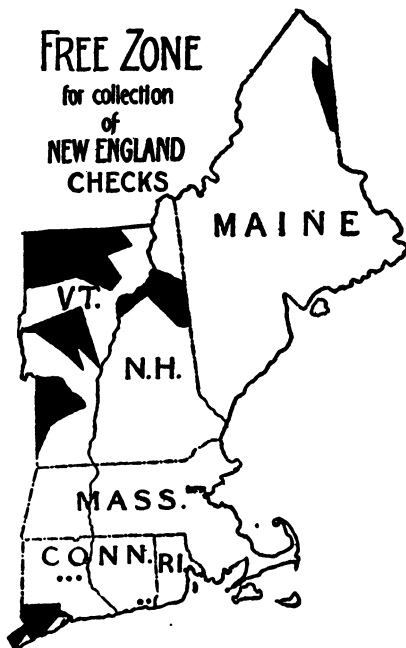
"If it shall occur in the collection of checks and other items drawn upon and payable by banks, bankers, or trust companies other than the members of the Association, or those clearing through such members, and the distribution of the proceeds thereof to the members to whom they belong, it shall be borne and paid by the Associated Banks *pro rata* according to the average daily amounts of New England checks outside of Boston which each bank shall have sent to the Clearing House during the preceding year. (Sec. 2, as further amended on January 10, 1901.)

"New England checks not redeemable through the Boston Clearing House may be deposited with the Manager for collection at such hours and under such regulations as shall be ordered from time to time by the Clearing House Committee, and the proceeds of such items when collected shall be distributed through the regular morning settlements in such manner and at such times as may be prescribed by the Clearing House Committee. (Sec. 11.)

"For the purpose of collecting New England items and distributing the funds received in payment thereof, the Clearing House itself may take part in the morning settlements as No. 100, if so ordered by the Clearing House Committee; * * * ." (Sec. 13.)

ing checks for collection on two hundred Massachusetts banks, all of whom from the very first day remitted at par in due course, except less than twenty. These few banks charged exchange; some 1-10, 1-20 or 1-40 of one per cent; others 25, 15, 10 or 5 cents a letter.

As the new system worked so successfully in Massachusetts, other States of New England were gradually added: Maine on September 21, 1899; Rhode Island and Connecticut on November 9 of that year; New Hampshire and Vermont on January 23, 1900, thus embracing the whole of New England in seven months and a half.



FREE ZONE OF NEW ENGLAND.

It would be pleasant to conclude the chapter here, but a glance at the accompanying map shows there is

more to explain—the black spots. They mark the location of banks that refuse to remit at par.

CHARGING EXCHANGE IN A CLEARING-HOUSE ABSURD.

Suppose a bank at the New York clearing-house received checks on itself to the amount of \$16,000,000 and deducted 1-10 of 1 per cent (\$16,000) for paying them. If it remained a member, the other members would, of course, deduct the same percentage for paying their checks. Suppose this bank the same day delivered about \$16,000,000 of checks to them, and they deducted about \$16,000. It would be a stand-off.

On May 10, 1901, the exchanges at the New York clearing-house amounted to \$598,000,000—an average of \$9,500,000 for each of the sixty-two members. Suppose they had deducted \$598,000 for paying. They would have returned \$575,000 because the balances amounted to but \$23,000,000, leaving them only \$23,000 net. If half the members received this difference, the average would be less than \$800. Generally, at clearing-houses, who gains to-day, loses to-morrow. In the end it would be a stand-off. No city bankers think of charging exchange on their checks passed through a city clearing. It would be absurd if all charged; worse if some charged and others not. In trade, a dealer might as well sell so many bushels and deliver the same number of pecks.

We have seen that the London clearing-house will not collect any check drawn on a country bank that refuses to pay in full (p. 38). In 1858 the London bankers informed their English and Welsh correspondents that such checks would be returned. Probably some were. At any rate London is not troubled with them.

NO CHARGE ON CHECKS PAID IN FULL.

Of the country checks that pass through the Boston clearing-house, three per cent of the amount is not paid in full. For months after organizing the New England department, the Boston banks collected all New England

checks, free of charge, for depositors and correspondents. When a paying bank remitted less than the face value of the check to the manager, he was permitted to charge the difference to general expense.* As a number continued to remit short, the Boston banks bound themselves to charge for collecting such checks, on and after February 1, 1900, 10 cents per \$100 (the usual charge of these country banks); no charge to be less than 10 cents. Since then, when a country bank charges the manager, he charges the Boston bank, and the Boston bank its depositor or correspondent. Practically the same charge is made by all three. The Boston bank neither loses nor gains, when the check passes through the clearing-house.

FEW NON-PAR BANKS.

The manager prints a list of the banks not remitting to him at par. They are located in three corners of New England, as shown in black on the map (p. 58). All Massachusetts and Rhode Island checks are free; all in Maine except on the seven banks in Aroostock County; all in New Hampshire except on eleven banks near the White Mountains, and all in Connecticut except on eighteen

*"All expenses incurred in the collection of items outside of Boston shall be borne and paid as follows:

"Each Bank (member of the Boston Clearing House) availing itself of this collecting agency shall pay an assessment of one hundred dollars (\$100) yearly, in advance. All expenses above the amount thus received shall be divided among the Banks assessed as above, *pro rata*, according to the average daily amounts of New England checks outside of Boston which each Bank shall have sent to the Clearing House during the preceding year, excepting the expense of printing which shall be apportioned equally, and excepting further that any special charges for exchange or otherwise shall be paid, *pro rata*, according to the respective amounts, by the Banks owning the checks upon which such charges are made. All question of such charges shall be determined by the Manager of the Clearing House, subject to the revision of the Clearing House Committee." (Sec. 20, Constitution.)

banks, mostly in the southwestern corner adjacent to New York City. Vermont is pretty evenly divided, with checks on thirty banks free and on thirty-six not free. Checks on seventy-two banks in all are not collected free. The remaining 552 banks in New England, outside of Boston, pay in full, and checks on them are collected free of charge in Boston.

One conspicuous result of clearing out-of-town checks in Boston is this free collection by Boston banks of nearly all New England checks (97 per cent) passed through the clearing-house.

WHOLE STATES IN FREE ZONE DESIRABLE.

When a free zone is established, the convenience of having it correspond in size with some familiar geographical division is obvious. Every bank in Massachusetts and Rhode Island remits at par to the Boston clearing-house, and no charge is made in Boston on Massachusetts or Rhode Island checks. In the other New England States there are exceptions to the free list. Every exception burdens the memory. A hundred banks in Maine are on the free list, and seven not. It is a nuisance to remember which are not. In some towns one bank will be on the free list, and another not. That is perplexing. As a matter of convenience, then, it is desirable that there should be no exception in any town or State of New England. Furthermore, it is but just to the many that remit at par to insist upon the few remitting at par also.

TO SECURE PAR REMITTANCE.

In three ways the non-par banks can be induced to remit at par and the free zone extended to every point:

RETURN THE CHECKS UNCOLLECTED.

1. If Boston, like London, returned the checks unless payable at par in the city, probably no bank in New England would long refuse to pay in full through the clearing-house the same as all Boston banks and nearly

90 per cent of the New England banks outside of Boston. If the clearing-house declined to handle checks drawn on New England banks not remitting to it at par, such checks would be returned to depositors and correspondents, by them to their customers, and at last carried to the paying banks as practically protested paper not collectible in Boston. Every non-par bank would have to explain to depositor after depositor why making its checks collectible in Boston was not incumbent on it. With nearly all New England checks collectible there at par no bank from Maine to Connecticut could convince its depositors that their checks drawn on it should not be. Soon every bank would remit at par to the clearing-house.

HAVE NO FREE LIST FOR NON-PAR BANKS.

2. The banks of New England being asked their opinion, four hundred answered the following query in the affirmative:

"Seven-eighths of New England banks do not charge exchange on checks collected through the Boston Clearing House. They do not even charge exchange on checks coming through the Clearing House from the remaining eighth of the banks, who do make a charge. Should there not be reciprocity?"

The smaller group through their correspondents have the use of the entire free list, but they themselves charge exchange on checks which the banks on the free list forward for collection to Boston correspondents who collect the checks through the clearing-house. That is unfair, one-sided, intolerable. They should reciprocate. Neither or both should charge. Whosever terms are agreed upon, each party should observe them. The Boston clearing-house should be impartial. It requires the manager to charge 10 cents per \$100 for collecting checks drawn on the non-par banks and allows them to deduct what they please for remitting. It should also require him to charge 10 cents per \$100 for collecting checks

sent from the non-par banks and allow the banks drawn upon to deduct as much for remitting.

Checks from a non-par bank come either directly to its Boston correspondent or indirectly through some Albany or Philadelphia correspondent to a Boston bank and then are taken to the clearing-house. These checks are indorsed by the non-par bank. As the indorsement is customary, they always show the non-par bank's connection with them. The Boston banks have bound themselves, under pain of \$1,000 fine and expulsion from the Association or exclusion from the clearing-house, to charge for collecting checks and drafts from whomsoever received, drawn upon any New England bank or banking institution which does not promptly remit at par to the Boston clearing-house. They should also bind themselves, under like penalties, to charge for collecting checks received from non-par banks and drawn upon institutions which remit at par. There would then be no free list in New England for the non-par banks. What right have they to enjoy a free list? There should be none for them. With the clearing-house charging to collect checks forwarded by them, no Albany or Philadelphia correspondent would help them out by standing the charge, or finding a Boston bank that would pay it in return for favors elsewhere. The expense would be too great to shift to others' shoulders. If checks bearing indorsement of a non-par bank passed through the clearing-house, every bank on the free list receiving them would be sure to observe the indorsement and charge on them. Practically no bank in New England could do business without using directly or indirectly the free list of the Boston clearing-house. Hence, to use it and continue their existence, the non-par banks would have to remit at par.

COLLECT BY EXPRESS.

3. In their circular of May 15, 1899, proposing to begin the clearing of checks on Massachusetts banks on

June 8, the clearing-house committee announced that checks on non-assenting banks would be collected by express or through other banks in the same or adjoining towns, as might be found expedient. For two years, however, collections by express were not resorted to for the purpose of enforcing remittance at par; but in the summer of 1901 the Boston Associated Board of Trade, representing the mercantile interests of the city, and hoping to abolish the prevailing charges in the end, arranged with a trust company to collect checks on the non-par banks by express. The majority of Boston banks, not going to have a trust company collect them, called a meeting of the Association and voted, August 13, 1901, that checks drawn upon banks in New England which did not remit at par to the Boston clearing-house should be collected by the manager through the express.

PAYING IN SILVER TO RETALIATE.

From August 27 to November 8, 1901, the clearing-house collected them by express. The checks amounted to \$3,544,813. In retaliation, fifty-eight of the non-par banks had \$2,316,250 in silver coin transported, free of charge, from the sub-treasuries of Boston and New York to their counters. Consequently the clearing-house was paid \$2,247,250 in silver. It cost the United States government \$2,700 to express the silver to the non-par banks, and the Boston clearing-house \$8,500 to express it back to Boston.

BOSTON CORRESPONDENTS HELPED NON-PAR BANKS.

The non-par banks procured over two millions of the silver through their Boston correspondents, who, in their behalf, deposited therefor with the United States Assistant Treasurer at Boston an equal amount in silver certificates. A minority of the Boston banks virtually joined forces with the non-par banks. The specious argument was made that a city bank must fill its correspondent's orders

without questioning their propriety—a good enough argument if the bank had only correspondents that gave the objectionable orders. With few giving such orders and many correspondents injuriously affected by them, as was always the case, the city bank can not exculpate itself upon this flimsy plea.

FREE TRANSPORTATION OF SILVER ABUSED.

It is, of course, a disgrace for the Government to expend public money in transporting silver coin, free of charge, to banks who only want it to use as an annoyance and source of expense to other banks. Efforts to stop this abuse were made in the House of Representatives in February, 1901. At a hearing before the House Committee on Appropriations, March 24, 1902, I argued that the United States Government was being robbed under form of law; and in the same session of Congress the House of Representatives passed the bill with an amendment which directed the Secretary of the Treasury to transport from the Treasury or sub-treasuries, free of charge, silver coin *for general circulation*, when requested to do so, *under such regulations as the Secretary of the Treasury shall make*. Through the exertions of the New England non-par banks the Senate struck out the words here indicated in italics and the amendment was lost in conference. Another attempt to stop this abuse was made in February, 1903, but defeated unexpectedly through the influence in Congress of the express companies interested in the transportation of the silver. Sooner or later it will be stopped. Be that as it may, it was not this free transportation of silver alone that defeated or could defeat the Boston banks, though, under the circumstances, they erred in collecting the checks by express.

EXPENSE OF COLLECTIONS BY EXPRESS.

Some banks were induced to remit at par by this method—an inferior method, with disadvantages except

in certain cases. There is the expense. The depositors of the checks collected by express paid the Boston banks some \$3,500, the usual charge on such checks. It cost altogether \$9,300 to collect them. The members of the Boston clearing-house lost the difference (\$5,800) and charged it to general expense. This outlay exceeded all expectations. With several methods at command, two entirely inexpensive, why did the Boston banks vote to incur expense, adopting a method which is costly as well as ineffective, unless employed with discretion? To solve this riddle, note the relations of the non-par banks to their Boston correspondents.

WHY BOSTON CORRESPONDENTS FAVORED NON-PAR BANKS.

The seventy-two non-par banks, with only one exception that I know of, do not charge their Boston correspondents exchange. Under the Boston rules the Boston bank must charge its depositor for collecting a check on a non-par bank. For a \$1,000 check it credits his account with \$999 net and debits the bank drawn on \$1,000. It gains in this proportion by the deposit of all checks and drafts on any non-par bank of which it is the correspondent. If the checks pass through the clearing-house the country bank gets the exchange; if deposited with the bank's Boston correspondent, the latter gets it. Both are pecuniarily interested.

Every Boston correspondent of non-par banks has a greater number of New England correspondents that remit at par. A Boston bank receives for collection from a Worcester bank a check for \$1,000 drawn on one of its non-par correspondents, therefore, in another State, as there are none in Massachusetts. It has reciprocal accounts with both banks. It credits the Worcester bank with \$999 net and at once debits the non-par bank \$1,000. It rakes off \$1. In the same mail it receives from the non-par bank a check of \$1,000, let us suppose, drawn on the Worcester bank. It credits the non-par bank

with \$1,000 and debits Worcester \$1,000. It does not treat its correspondents alike. If it did, it would credit the non-par bank with only \$999 net. It would rake off another dollar. It would tax the checks going and coming. It can not, for the non-par bank would select another Boston correspondent. Hence, it taxes the Worcester bank and not the other.

WHEN A MAJORITY OF BANKS DID NOT COUNT.

The Boston correspondents of the non-par banks are few in number. The other Boston banks, the large majority, are disinterested. They would like to see justice done to both sides. Majorities in banking, unless aroused by agitation or interference, do not seem to count. A minority of Boston banks, as we have seen, postponed the clearing of out-of-town items for twenty-two years. A minority has for several years postponed an act of justice to the hundreds of banks on the New England free list who complain bitterly of Boston's inconsiderateness, though it is offset by many virtues. On November 8, 1901, when collections by express were stopped by vote of the Association, the majority immediately took another step, out-voting the minority and raising the collection charge on checks drawn upon the non-par banks from 10 cents to 25 cents per \$100. This increased the profits of the Boston correspondents of the non-par banks on any such checks collected by them 150 per cent until the old rate was restored at the next meeting in the following month. If the majority had authorized the manager of the clearing-house to charge on all checks bearing indorsement of any bank in New England not remitting to it at par, they would have won at the start without a conflict or at its close without spending another dollar of their depositors' money as exchange for non-par banks.

HOW BOSTON HANDLED TONS OF SILVER.

Bankers are always found who will not listen to reason or yield except to the inevitable. When collection

by express is resorted to as a remedy, appropriate cases should be selected. Such collections should be restricted, from day to day, to sums sufficiently large to have some effect in inducing the paying bank to remit at par rather than be constantly prepared for such demands payable in currency at its counter. Favorable terms are often obtained by presenting checks through other banks in the same localities. In either case, it is best to assemble and present the checks in the largest masses practicable. Boston's system is well adapted to doing this. It showed its efficiency when the non-par banks paid it sixty-five tons of silver in a few weeks. As soon as the clerks got accustomed to being paid in silver by the ton, the business ran as smoothly as ever. The Boston plan, described in the next chapter, will well repay the little study required to comprehend its operation.

SUMMARY.

To sum up, the clearing of out-of-town checks, though opposed for years by a small minority of Boston banks, was successfully established at Boston in 1899. The system includes checks on all points in New England and maintains a free zone of nearly equal extent.

Proposed in 1877 and 1883, the Boston movement at first resulted in a deadlock, based on the supposed importance of having certain city banks who declined to come in participate. After twenty-two years, through another movement started among the Connecticut banks, the deadlock was broken by substituting the manager of the Boston clearing-house for any abstaining members and giving him checks on their correspondents to collect. The Association finally decided that all checks passed through the out-of-town clearing should be collected by him.

The only opposition exhibited by country banks has been in the refusal of a few to pay the clearing-house in full for their checks, deducting so-called exchange. Boston checks passed through the clearing-house are paid in full or not at all. New England checks should be. This can be effected either as in London, by Boston banks returning checks drawn on such banks as not collectible through the Boston clearing-house, or by the manager charging to collect checks bearing indorsement of the non-par banks, which would cut them off from the use of the New England free list now enjoyed by them without reciprocity; that is, without being themselves on the free list.

Boston tried neither of these safe, equitable, inexpensive ways, but a third, to wit: collection by express, which proved excessively costly owing to the Government's free transportation of silver coin to the non-par banks and their payment of checks in it, greatly increasing the cost of expressage to the clearing-house. Aside from the free transportation of silver by the United States Treasury for such a purpose, which is a temporary abuse of governmental power, the failure of collection by express to bring the non-par banks to terms only shows that on this occasion it did not succeed.

Incidentally the payment of sixty-five tons of silver by the country banks to the clearing-house tested the efficiency and proved the worth of Boston's admirable plan.

In short, the majority of banks at a clearing point like London or Boston can, if they will, overcome opposition, whether among their own number or among the country banks in the surrounding territory commercially tributary.

CHAPTER VI.

THE BOSTON PLAN.

Checks Deposited with the Manager—Two Deliveries Daily—Early List—Indorsements—Separate Packages—Out-of-Town Slip—Out-of-Town Check Ticket—Assorted Alphabetically by Towns—The Clearing-House Sorts Packages—Letters of Transmission—Looking Back for Errors—Mailing—Number of Checks—Almost No Errors—Fines—Out-of-Town Credit Ticket—Out-of-Town Credit Receipt—Out-of-Town Ledger—Adjustments—Returned Checks—New York Exchange—How the Clearing-House Pays—Manager's Proof—Delayed Remittances, how Adjusted—Borrowing Unnecessary—Summary.

BOSTON has an excellent way of clearing New England checks, a system of its own, worthy of imitation, good enough for service anywhere and entitled to praise. Every essential feature will be here minutely described because the working of the plan has proven practically that any number of checks drawn upon any number of banks can in this manner be collected conveniently, rapidly and economically.

City and country checks are cleared in the same room and at the same desks; Boston checks at 10 a. m., New England checks in the afternoon. Both clearings are under the same management, but the out-of-town clearing, which provides for the collection of checks on all points in New England outside of Boston, requires additional clerks.

CHECKS DEPOSITED WITH THE MANAGER.

In London, as we have seen, country checks pass through the clearing-house the same as city checks,

though at different hours. In Boston they are handled in another way. City checks are taken to the clearing-house and exchanged, each bank carrying some up and some back. Country checks are taken to the clearing-house and left with the manager, who mails them to the country banks drawn on, collects or returns them, and accounts for the proceeds to the Boston banks to whom they belong. As it takes but two nights to obtain most of the remittances, the manager settles with the city banks on the second morning, that is, the next business day but one, when he distributes the proceeds through the regular city clearing, as will be explained further on.

Nearly all of the New England banks are so accessible that checks mailed from Boston in the afternoon are the next morning in the country banks drawn on, which is as soon as city checks deposited in Boston banks by city customers are in the Boston banks drawn on; for city checks are held over night and then passed through the clearing-house.

TWO DELIVERIES DAILY.

It is necessary to mail some checks early in the afternoon. A check on Provincetown, Mass., which is but 120 miles by rail from Boston, must be in the mails before 3:15 p. m. to go the same day. If left over for the first train in the morning it will not reach its destination till noon, which is too late in the bank day. This is true, in general, of all other points on Cape Cod (Barnstable County). Consequently, upon putting the Boston plan into operation, the manager of the clearing-house prepared a short list of banks, the location of which required that checks should be deposited with him not later than 1 o'clock. This list comprises only thirteen banks in twelve places, all in Massachusetts and five on Cape Cod, to wit:

Falmouth,	Hopkinton,	Millbury,	Townsend,
Grafton,	Hyannis,	Northboro,	Wareham,
Harwich,	Milford,	Provincetown,	Yarmouthport.

Checks on all New England banks, except the thirteen on the early list, may be delivered at the clearing-house not later than a quarter past 3 o'clock of each business day. Until quite recently they were not delivered later than 3 o'clock; and most banks still deposit them no later. This gives plenty of time to get the checks into the banks drawn on before they open for business the next morning, with a few exceptions. About twenty banks are located so far from Boston or from railways, or on branch roads with such restricted facilities for transportation, that checks mailed in the afternoon can not reach them until late in the following day. These few apart, it is practicable, by having two deliveries, to reach all the banks in good time on the morrow. Saturdays are exceptions to the general rule; on that day all checks must be deposited not later than 1 o'clock.

In describing the precise method of out-of-town collections, I begin with tracing the course of a check from the Boston bank through the clearing-house to the post-office.

INDORSEMENTS.

Every check must be stamped by the bank depositing it, according to the following form:

Pay to the Order of the
Boston Clearing-House Association,
Prior Endorsements Guaranteed.
Second National Bank of Boston,
By T. H. Breed, Cashier.

Pay to the Order of
Any Bank or Trust Company,
Prior Endorsements Guaranteed.
Boston Clearing-House Association,
By Charles A. Ruggles, Manager.

Banks are requested to see that all indorsements are in order. No examination of checks will be made by the officers or employees of the clearing-house.

SEPARATE PACKAGES.

The checks on each out-of-town bank must be made up into a separate package, with a slip containing a list of the checks.

OUT-OF-TOWN SLIP.

In the example taken, it is supposed that the Merchants' National Bank, of Boston, has four checks, amounting to \$506.90, drawn on the Abington National Bank, of Abington, Mass. The Boston bank makes a list of the checks as shown in the accompanying form, fills out the slip as indicated, and pins it to the checks. This slip is the invoice or bill of lading which describes the checks and accompanies them to the bank drawn on.

The general reader will observe that it is called a "foreign slip." In banking, "foreign" means out-of-town and is used in this sense at the Boston clearing-house. Out-of-town checks are foreign checks; the New England department is the foreign department. The blank forms used in this department, borrowed largely from those employed in the city department, were devised in the spring of 1899 by the then assistant manager, Charles A. Ruggles, an experienced bank clerk, who since, as manager, has proven to be also an executive officer of signal ability.

The work of the New England department is greatly facilitated by receiving checks in packages. It deals with packages only. And, as the checks average ten in a package, the pieces handled are thus reduced at the start to one-tenth the number of checks. Each package is known by its slip, which, therefore, must contain, besides a list of the checks and a footing, the name and location of the out-of-town bank on which the checks are drawn, the name of the Boston bank depositing them for col-

CLEARING OUT-OF-TOWN CHECKS.

*Boston Clearing House.***FOREIGN SLIP.**BANK *Abington National*LOCATION *Abington, Mass.*
FROM

No. 13, Merchants National Bank.

DATE *Oct. 2, 1902.*

103	41		
59	08		
2	50		
341	91		
506	90		

FOREIGN CHECK TICKET.

FROM

No. 13, Merchants National Bank.

DATE *Oct. 2, 1902.*BANK *Abington National*LOCATION *Abington, Mass.*\$ *506 90***DO NOT DETACH.**

Out-of-Town Slip.

lection, and the date. Whenever there is but one check on a bank it will still be necessary to have the clearing-house slip attached, with the name of the bank and the amount of the check placed upon the slip.

These slips vary in color. Seeing a blue one, you know it is Connecticut; a straw-colored one, it is Rhode Island; a salmon-colored one, it is New Hampshire; a green one, it is Vermont; and a white one, it is Massachusetts or Maine.

OUT-OF-TOWN CHECK TICKET.

The slip has attached to it a coupon or stub, called the "foreign check ticket." This coupon is retained at the clearing-house to keep tab on the package after the checks are forwarded to their destination.

This ticket, used to check the package, is the voucher or counterfoil held by the manager for the amount which the Boston bank charges against the clearing-house upon delivering to him a package of checks drawn on a country bank. A similar ticket for checking the exchanges has been used in the city clearing for nearly half a century at New York, that is, from the origin of a clearing-house in America, except the first few days when the manager thought he could get along without it. Boston adopted it with the rest of the New York plan in 1856.

To tally with the slip, the coupon or check ticket must contain the name and clearing-house number of the bank depositing the checks, the date, the name and location of the New England bank on which they are drawn, and their total amount. The Boston bank must fill out both the slip and check ticket. The clearing-house makes sure of two things: first, that there is a ticket for every package; and, second, that the amount, date and name of the country bank on the ticket agree with those on the slip. It will be noticed that the check ticket bears the words, "Do not detach." As all the clerks of the Boston banks now understand that it is not to be torn off

CLEARING OUT-OF-TOWN CHECKS.

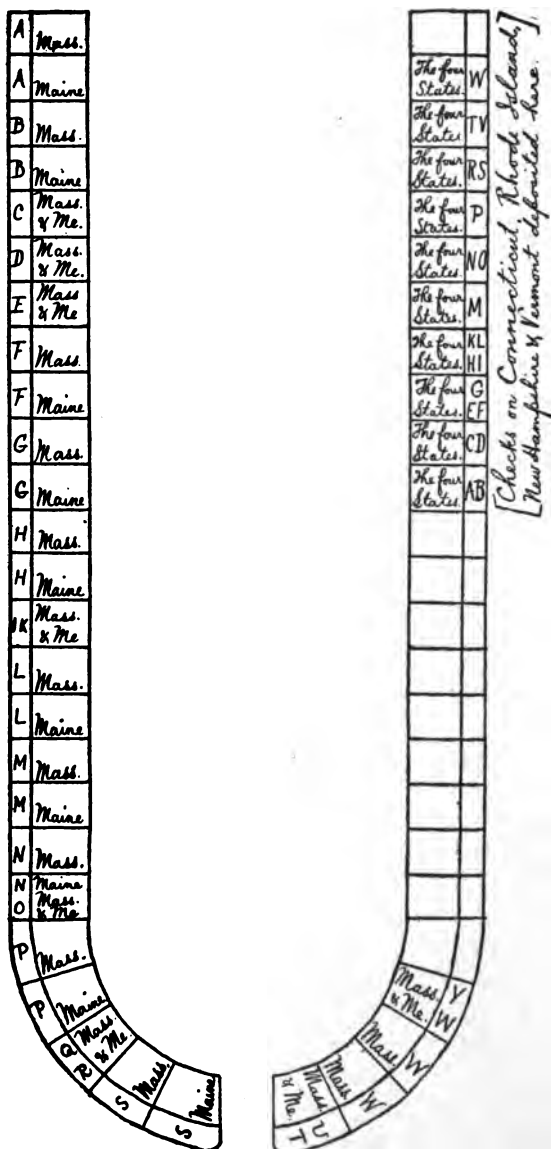


Diagram of Desks at the Boston Clearing-House.

by them, these words are no longer printed on it. The ticket is only to be detached by a clearing-house clerk after verifying.

ASSORTED ALPHABETICALLY.

Before bringing the packages to the clearing-house the Boston banks assort them alphabetically, according to the names of the respective towns in which the banks are situated, and the messengers deliver them at the proper desks, which are designated by letters, as shown in the accompanying diagram (p. 76). The desks form a double row, an oblong counter. The open end is toward the entrance of the clearing-house. The messenger of the Merchants' National Bank, for example, upon entering, passes to the right and lays its package of checks on Abington, Mass., at the first desk (marked "A"), together with all packages of checks on all other banks in Massachusetts towns whose names begin with the first letter of the alphabet; packages on Auburn, Maine, at the second desk (marked "A, Me."); packages on Brighton, Mass., at the third; those on Bangor, Me., at the fourth, etc., proceeding down the line and stopping at each desk in turn until he has delivered all on Massachusetts and Maine banks at their proper stations. The remaining packages of checks on banks in Connecticut, Rhode Island, New Hampshire and Vermont are not separated by States. All on points beginning with the letters A and B are delivered at one desk (marked "AB"); all on points beginning with C and D at the next, and so on until all in these four States are delivered. The messengers pass round on the outside, down one row and back the other, by all the desks, from A to Y and A B to W.

In New England no name of any bank town begins with J, X or Z; none in Massachusetts or Maine with V, nor in the other States with Q, U or Y. Hence these letters of the alphabet do not appear on the desks.

As a matter of fact, the name of no State except Maine actually appears on the desks. The names of the other States are understood. For the convenience of the reader, however, the diagram is marked to show plainly at each desk what checks are delivered there.

THE CLEARING-HOUSE SORTS PACKAGES.

Before sorting and while the packages are being delivered, some of the clerks in the New England department of the clearing-house gain time by detaching the check tickets from the slips pinned to the packages. In a trice the amount on the ticket is carefully compared with the footing on the slip, and if they do not agree, the difference is noted and the bank sending in the slip is later called upon by telephone or otherwise to explain it.

When most of the packages for the day are delivered, shortly before 3 o'clock, all of the clerks step to the desks and begin to sort. The clerk behind the first desk finds there packages of checks on twelve banks located at ten points in Massachusetts whose names commence with the letter A, running from Abington to Ayer. He has, for example, ten packages on the Abington National Bank. He puts them by themselves, and makes eleven other little stacks, one for each bank. If the tickets have not yet been detached from the slips, he detaches them, verifying the amounts in each case. Others are doing the same at their desks. Twenty clerks sorting and comparing at thirty-nine desks finish the work quickly. At a quarter past 3 o'clock the time for delivery closes. Checks may be refused by the manager at his discretion if presented more than ten minutes later. In fact, shortly after 3:15 p. m. the sorting is substantially over.

We have now seen how the members of the Boston clearing-house at their offices sort New England checks daily by banks, making packages; and, then sorting the packages by States and towns, deliver each package to

the clearing-house at its proper compartment—one of these thirty-nine desks mentioned. We have seen how the clerks of the clearing-house behind the desks sort the packages by banks and complete the concentration of the checks by putting the packages in little piles so that the checks on each New England bank are brought together.

As soon as the last bank has delivered its checks, and before the sorting is entirely finished, some clerks, picking up certain packages which they have just sorted, proceed to complete, and make ready for mailing, the

LETTERS OF TRANSMISSION.

A printed letter-form is naturally used in transmitting the checks for collection to the several banks on which they are drawn. From the specimen annexed, it is evident that the name of the bank addressed and the date can as well be inserted before the delivery of the packages, when the clerks have plenty of leisure. This is done. The letter and the coupon attached to it are dated with pen or stamp. The name and location of the bank are filled out in writing. The letter now lacks only the amounts of the checks in the packages it will contain and their total. The coupon lacks only the total; for similar in its use to the check ticket already described, which keeps tab on the package, the coupon is itself another check ticket which keeps tab on the amount of the letter and has to do with the footing only.

The amounts and footing are inserted by a machine—Burroughs's arithmometer. In the supposed case of the Abington National Bank, the clerk finds ten packages of checks on it. He takes them to the machine he operates and puts on the machine the prepared letter-form, already dated and filled out with the name and location of the Abington bank. In the blank space below the printed signature of the manager, the footings of the several slips on the packages are inserted, with

CLEARING OUT-OF-TOWN CHECKS.

C. A. RUGGLES, Manager.

BOSTON CLEARING HOUSE.

Boston, Oct. 2, 1902.

To the Cashier of the

Abington National Bank of Abington, Mass.

Dear Sir.

Enclosed I beg to hand you checks on your Bank as listed below, for the amount of which please remit me by return mail a draft on your Boston correspondent, payable to the order of the Manager of the Boston Clearing House.

At the same time, if for any reason a check remains unpaid, please advise me of the amount of such check and the name of the Boston Bank whose endorsement appears thereon.

Yours truly,

C. A. RUGGLES, Manager.

5	0	6	9	0
1	9	5	0	0
4	4	0	0	0
2	6	7	3	1
8	9	0	0	0
1	0	0	0	0
4	7	3	0	0
7	1	0	0	0
3	1	9	0	0

2 065 28

Abington National Bank Abington, Mass.Date, Oct. 2, 1902 Amount, \$, 2 065 28

the footing of these ten amounts. The first amount of \$506.90 is the footing of the four checks deposited by the Merchants' National Bank. The footing of the ten amounts is \$2,065.28. This footing is repeated by the machine on the stub or coupon at the bottom of the letter, which stub is soon to be detached by another clerk and retained by the manager as evidence of the total amount of checks inclosed in the letter, according to the slips and check tickets of the ten Boston banks concerned.

The Boston clearing-house uses six arithmometers. To expedite matters, a certain number of country banks are assigned to each machine. The operator, having prepared the necessary letter-forms for his machine and arranged them in alphabetical order, takes up the sorted packages in the same order, which he soon memorizes. As checks on all the New England banks except ten, on the average, daily pass through the out-of-town clearing, he has a daily letter to provide for practically every bank on his list.

As soon as he, with his machine, copies the footings of the packages on the letter and inserts the total in the letter and coupon, he lays the packages on the letter and puts it upon the desk at his side. By the time a dozen letters are thus completed, a clerk, who now leaves off sorting, takes them with the packages on them to one of the ten unoccupied desks shown in the diagram, between the long row of desks marked "A" to "Y" and the short row marked "AB" to "W." They are taken there for verification. This is known at the Boston clearing-house as

LOOKING BACK FOR ERRORS.

Taking up one of these completed letters having on it the amounts and the packages to which they refer, the examining clerk compares the footing on each package with the amount as inserted in the letter. If they

agree, he ticks off the amount on the letter. To discover a possible omission, after checking all the amounts, he counts the packages and counts the entries to be sure that they agree in number. He sees that the footing appears in the letter and is repeated on the stub. If all is correct, he detaches the stub, selects an addressed envelope, folds the letter around the packages and puts them in the envelope, which is now ready for the mailing clerks.

MAILING.

With six machines deftly operated, the supply of completed letters is very soon sufficient to keep clerks busy examining at all of the ten desks in the row shown on the diagram to be unoccupied by packages upon their delivery. These ten clerks, in turn, soon supply such an abundance of examined letters inclosed in envelopes as to give the mailing clerks all they can do.

In some cases using envelopes with printed addresses economizes time. Some clerks examine letters to the same banks day after day and, in advance, select the necessary envelopes, if printed, or address them in writing, if not. Other clerks act with freedom and push the work forward where found. The advantages of both ways are thus enjoyed.

To prepare for mailing, one clerk weighs each letter and marks on it the required amount of postage. Another affixes the necessary stamps. The envelopes are finally sealed like ordinary letters.

NUMBER OF CHECKS.

It is estimated that 70,000 New England checks daily pass through this department of the Boston clearing-house. The actual number is generally unknown, no attention being paid to that except occasionally to strike an average. The number of packages is known. They average 7,000 daily. The number of banks in New

England, outside of Boston, is 625.* The daily average of letters to them is 615 (13 may be on the early list).

The Boston banks concentrate 70,000 checks in 7,000 packages. The clearing-house concentrates 7,000 packages in 615 letters. The checks average 10 in a package and 114 in a letter.

All these checks, so rapidly are they handled by the twenty clerks at the clearing-house, are in the post office by 5 o'clock, and sometimes, when the business is light, at 4:30 p. m. It takes less than two hours after its delivery at the clearing-house to get all this matter into the mails. In no such surprisingly short time could it be done if six Burroughs's arithmometers, or some such mechanisms, were not used; if the employees were not so skillful in the manipulation of these ingenious adding machines; or if a systematic division of labor did not enable the clerks to work at the top of their speed in the most effective manner.

From the moment the twenty clerks begin to sort packages at the desks the work develops so that all are busily engaged to the end. As soon as the sorting is well started, six clerks fall out and go to the machines. As soon as the operators turn off a number of completed letters, ten more clerks fall out and commence to examine the letters for errors. As soon as the remnant of the sorting is attended to by the few other clerks, there are

*This includes one of the Boston banks (People's National Bank of Roxbury) which, though in the city, prefers to be treated as an out-of-town bank; partly, perhaps, to avoid paying \$250 per annum for the privilege of clearing through the Boston clearing-house; partly, to receive by mail early in the morning its checks deposited with Boston banks on the preceding day, and to pay for them one day later than otherwise. Its checks received by Boston banks in the morning mail would be presented to it the same day through the city clearing and paid or returned, but through the out-of-town clearing they are only mailed that day, in the bank the next, and paid or returned on the day following (in 48 hours).

letters ready for them to prepare for mailing. The operators get through this portion of the work first, the examiners next, and the mail clerks last; but no man is idle while work remains which he can do. Practically all get through together.

ALMOST NO ERRORS.

The quality of the work is as noteworthy as its quantity and celerity. In a month's business of \$40,000,000 the manager's differences were only one cent over and one cent short. To attain the highest grade of clerical service he kept a memorandum of all errors. The first six months there were 76 errors, or 38 a quarter. The next quarter 18 clerks made 16 errors, not one apiece. Some of his clerks for months together make absolutely no error at all, which proves not only their infallible expertness, but also the perfect discipline he maintains. In the last quarter referred to there was only one error where the amount was listed wrong on the letter transmitting the checks to the country bank: a case of transposing \$284.08 to \$248.08. Most of the errors were misdirected letters; as one for the Home National Bank, of Milford, Mass., was sent to the Home National, of Holyoke, Mass.; or addressing a package of checks on the Hurlbut National Bank, of Winsted, Conn., to the First National of that place. The gross amount of differences on \$775,000,000 of transactions was only \$6.93, the net amount almost nothing.

FINES.

Every member who sends to the clearing-house any incomplete or incorrectly filled slip or check ticket is fined one dollar. A fine of two dollars is collected for failure to attend punctually at the 1 o'clock or 3 o'clock delivery. Any bank not sending to the manager punctually the credit ticket next to be described is fined four dollars. A fine of four dollars also is imposed for any error in the amount of this ticket.

Having now shown how the checks pass through the clearing-house into the mails, I will describe the method of accounting for them and later the way the proceeds are received and distributed by the manager.

OUT-OF-TOWN CREDIT TICKET.

Every member of the Boston clearing-house must send daily to the manager by half-past 1 o'clock on Saturdays, and on other days before half-past 3 o'clock, a ticket showing the total amount of out-of-town checks it has deposited at the clearing-house that day. The proof clerk receiving these tickets credits each bank on a settling sheet for the total amount of New England checks left by it for collection, and adds up the column, which amounted to \$2,216,520.87 on the day taken for an example (October 2, 1902).

The same checks which the manager receives from 31 banks he sends to 615 New England banks outside of Boston. The amount received must equal the amount sent out, unless there is some error. To ascertain the total sent out the footings on the letter-stubs are added together. They are first added together by States. As soon as some operator on the arithmometer has run off the letters assigned to him, he goes to the desks of the examining clerks, collects such stubs as have already been detached from letters made ready for mailing, and returning to his machine adds up the footings on the stubs. Two or three operators may engage in this work, one finally combining the totals of the several States to obtain the grand total.

Sometimes the amount sent out according to this first draught of the clearing-house figures exactly equals the total of the credit tickets presented by the Boston banks. No error appears. Generally the proof is not made at once. There is usually a difference of a few cents or perhaps several thousand dollars. The next day a Boston bank may find out that it charged the clearing-house too

Form A

Boston Clearing House.

FOREIGN DEPARTMENT.

Maine 18,979.16
 N. H. 7,380.78
 Vt. 6,326.28
 Mass. 57,991.87
 R. I. 4,217.59
 Conn. 10,543.98

From National Exchange Bank, No. 81,

New England Checks left for collection on Oct. 2, 1902Amount, \$ 105,439.76Smith

Out-of-Town Credit Ticket.

much or too little. This may account for the discrepancy. Or the country bank upon receiving and examining the checks the next day may find one not listed on the slip, the amount of which check the Boston bank has, nevertheless, included in its credit ticket. Frequently neither the Boston nor the country bank reveals the error, and the clearing-house must make another proof.

Suppose the clerk of the Merchants' National Bank, in adding the amounts of its packages, transposes the footing of the Abington package from \$506.90 to \$560.90 and fails to detect his error, which makes the clearing-house \$54 short. The first proof made from the stubs of the letters shows the existence of some error. To locate it a second proof is made from the check tickets representing the packages. To avoid proving up every time all of the 7,000 tickets, every Boston bank is required to give on its credit ticket, besides the total amount of New England checks left for collection, the various aggregate amounts on banks in each of the six States, as will be seen on the accompanying form (p. 86). And the clearing-house, separating the check tickets by States, keeps them in six bundles, one for each State.

In making this proof the clearing-house clerks select the tickets on some one State to begin with. Suppose they start with Maine. A clerk adds up on his machine the amounts on the Maine tickets, and the total is compared with the total of the amounts reported by the Boston banks for checks on Maine. If these totals agree, the clerks drop Maine and look for the error in another State. Suppose they take Massachusetts, and adding the amounts on the Massachusetts tickets find the total \$54 less than the total amount of Massachusetts checks reported by the Boston banks. They now know the State in which there is an error; and to discover the Boston bank that made it, they sort the Massachusetts tickets. Those from each Boston bank are brought together and

Form B

Boston Clearing House.

FOREIGN DEPARTMENT.

Received from National Exchange Bank, No. 21,

New England Checks said to amount to . . . \$105,439.76
 Payable if good on . . . Oct. 4, 1902
 or when a remittance shall have been received.

[Signature]
 Manager.

Out-of-Town Credit Receipt.

the amounts added, so that the total from each can be compared with the amount of Massachusetts checks reported by the bank. This comparison shows, in the case supposed, that the Merchants' National Bank reports \$54 more than the total of its Massachusetts tickets. Comparing these tickets with its records the bank finds its error in the entry of the Abington checks.

Sometimes the clearing-house clerks select the right State first; sometimes last. They take up for addition the tickets of the bank in error perhaps first, perhaps last; but sooner or later the difference is located and corrected.

OUT-OF-TOWN CREDIT RECEIPT.

The credit receipt, readily understood from the accompanying model (p. 88), is the counterpart of the credit ticket which is its tally that the manager exchanges it for. He gives it as a receipt for New England checks said to amount to so much, which it declares are payable, if good, on the date he inserts (generally two days later than their delivery at the clearing-house), or when a remittance shall have been received. As the credit ticket checks the credit receipt, they might be attached like the out-of-town slip and its check ticket, or the letter of transmission and its stub. It is more convenient to have the credit ticket and receipt separate.

The use of the credit receipt is not confined to the acknowledgment of checks delivered. It is also employed for credit adjustments, of which examples will be given in another place (pp. 96, 97).

Of necessity, an account is opened with each bank to which collections are forwarded, and we will next turn our attention to the

OUT-OF-TOWN LEDGER.

Extreme simplicity characterizes the bookkeeping of the New England department. At the outset, each country bank is charged with the amounts sent to it for

CLEARING OUT-OF-TOWN CHECKS.

LOCATION.	BANK.	Oct. 2, 1902		Oct. 4	
		Dr.			Cr.
Abington	Abington National	\$2065 28		Oct. 4	\$2055 28 10 00

Out-of-Town Ledger.

collection, and, in turn, as remittances are received, it is credited. For charging the account with the bank, the medium used is the stub of the letter, as the amount it represents is the aggregate of the stubs of all the slips on the packages inclosed with the letter. In crediting, the bookkeeper uses the letters from the out-of-town banks inclosing remittance checks. Sometimes the banks making returns send back the original letter which inclosed the collections. This answers every purpose in the clearing house.

The ledger at present in use is nothing more than a collection list (see illustration, p. 90). It has the names of the various out-of-town banks printed down the left-hand margin of the page, there being a line for each bank. There is a debit and credit column for each day occupying the space to the right of the names. The ledger is similar to that variety of deposit ledgers in use among banks, which is known as a progressive ledger. As already mentioned, the banks are debited with the items sent out and credited with the remittances. The debits necessarily precede the credits by two or three days, according to the location of the banks, and occasionally longer as when storms interfere with the mail service. Over the debit column is entered the date on which the collections are sent out, over the credit column the date on which the clearing-house should receive the remittances from the banks (with few exceptions), and in a narrow column between the debit and credit columns the date on which the remittance actually arrives. Wherever the remittances come in promptly, the columns, taking the banks collectively on a page, balance. Wherever one or more remittances are delayed, the columns, of course, are out of balance, thereby directing attention instantly to the delinquent.

In our example of the Abington National Bank, checks said to amount to \$2,065.28, as per slips attached,

are forwarded to it on October 2. Remittance in payment is expected and actually received on October 4. The bank, upon receiving and examining the checks on the 3d, discovers an overcharge of \$10, some Boston bank having made an error in addition on some slip or in entering the amount of a check. The Abington bank deducts \$10 from the footing of the letter and remits a draft on its Boston correspondent for \$2,055.28, with advice of the error and the name of the Boston bank in whose package it occurred.

As we have seen, some 70 of the 625 banks in New England, outside of Boston, do not pay in full, but charge exchange. Such deductions like any others are made and entered the same as the error in our example.

At the Boston clearing-house there are six ledgers in charge of six clerks, one ledger and one bookkeeper for each State. It will be noticed that the ordinary rule of a clearing-house—every debit must have a corresponding credit—is not followed in the Boston plan. The Abington bank is debited with one amount and credited with two, which credits taken together do, of course, exactly correspond with the debit. The bookkeepers could never balance their books if they did not provide for

ADJUSTMENTS.

There may be an error in addition or entry. A check may be returned either unpaid or because informal, that is, incomplete. The error may be on either side of the account. The country bank may find the amount of the letter over or short. If the true amount of the checks is less than the footing of the letter, the bank remits so much less and is credited for the difference at the clearing-house. If the true amount is the greater the bank remits so much more than the footing of the letter and is debited with the difference. The error may be, but very seldom is, made at the clearing-house, in which case the adjustment goes no further. Generally a Boston

bank is affected. When the country bank is credited with the amount of an error or a check returned, the Boston bank who made the error or delivered the check must be debited. In another case, if the country bank is debited, the Boston bank must be credited.

Besides the amounts of errors and unpaid checks returned, there are exchange charges and protest fees to adjust. All of which is simple enough, but requires attention.

I.—RETURNED CHECKS.

The following instructions guide the New England banks in the return of checks:

BOSTON CLEARING HOUSE.

FOREIGN DEPARTMENT.

BOSTON, April 10, 1900.

Please do not delay the protest or return of any check not good, but return it, under protest if necessary (*deducting check and fee from remittance*), as speedily as possible, to the **Manager of the Boston Clearing House**, and not to any of the Banks whose endorsement may appear upon the check. It is necessary for the Manager of the Clearing House to have such checks returned to him, to be used as vouchers in settling his accounts with the respective Boston Banks. If unable to return **at once**, give name of Boston Bank endorsing check, and reason for holding. Very respectfully,

C. A. RUGGLES, *Manager*.

When a check comes back to the clearing-house the manager returns it in the next city clearing (the same or the next morning) to the Boston bank that delivered it to him for collection two or three days before in the out-of-town clearing. At the clearing-house it is pinned to a printed slip which reads:

FORM G.

Boston Clearing House.

FOREIGN DEPARTMENT.

Check attached is returned for reason indicated by check-mark.

Insufficient funds.
Post dated.
Incomplete.
No account.
Payment stopped.
Imperfect.

Endorsement lacking.
Signature lacking.
Signature unsatisfactory.
Endorsement unsatisfactory.
Listed in wrong package.
Reason not given.

Form F

Boston Clearing House.

FOREIGN DEPARTMENT.

Boston, Oct. 4/02

BANK No. 1 is notified that a check left for collection
on Oct. 2 drawn on First Natl. Bank of New Bedford, Mass. for
\$ 445.89 is unpaid.

C. A. RUGGLES, Manager.

Notice of Unpaid Check.

The country bank is credited with the amount of the check and fee, if any, and the Boston bank debited.

When, instead of returning the check, the out-of-town bank notifies the manager that it will not be paid and is being held for protest, the Boston bank is notified through the city clearing (see illustration of notice, p. 94) and debited with the amount of the check. Upon the arrival of the protested check it is returned to the Boston bank in the next city clearing with the protest and a charge ticket for the fee with which the bank is debited, the country bank being credited.

Not infrequently an unpaid check, held for protest, is subsequently paid. Meanwhile, upon advice and notice, the country bank has been credited and the Boston bank debited. The reverse must now take place: the check being paid, the country bank must be debited again and the Boston bank credited again. The debit having in effect nullified or destroyed so much of the Boston bank's credit receipt, the manager naturally restores its lost value by making out another credit receipt for the amount of the debit (see illustration, p. 96).

When, by an error in addition or entry, a bank makes the footing of an out-of-town slip too little, the amount of the credit ticket will be short; the corresponding amount of the credit receipt given by the manager for the total delivery of checks will also be manifestly short, and an additional receipt is given. The manager makes up the shortage by giving a credit receipt for the deficiency (see illustration, p. 97). In this way he corrects or offsets credit errors and makes all necessary allowances to the credit of any Boston bank. Conversely, by means of charge tickets, the manager corrects or offsets debit errors, and makes or collects all necessary charges.

2.—NEW YORK EXCHANGE.

A peculiar form of adjustment results from the acceptance of checks on New York as return remittances.

Form C

Boston Clearing House.

FOREIGN DEPARTMENT.

Oct. 2, 1902

RECEIVED FROM Shawmut National Bank No. 22 amount of unpaid
 check on Belfast National Bank of Belfast, Me. \$100.165

R. H. 1902
 Manager.

Credit Receipt to Adjust Unpaid Checks, since Paid.

Form B

Boston Clearing House.

FOREIGN DEPARTMENT

RECEIVED FROM Shawmut National Bank No. 20 amount of

error on Worcester National Bank of Worcester, Mass. \$ 10.00

[Signature]
Manager.

Credit Receipt to Adjust Error.

The clearing-house committee permit the manager to charge these New York checks and currency received in payment of collections to half of the Boston banks one day and to the other half the next, in proportion to the business of each bank; and the amounts of such charges are reported to the president, cashier, or other representative of each bank at the 10 o'clock clearing. It is a local custom for bank officers to attend at that hour.

In the example taken, the Massachusetts National Bank is charged on October 4 with eleven of these New York checks, amounting to \$21,697.83, as if they were checks drawn on itself by country banks in payment of collections (see illustration, p. 99).

All charge tickets other than those already shown are in writing on blank slips without any printed form.

We now come to the collection of the return remittances, consisting of both Boston and New York checks, together with some currency, and the distribution of the proceeds among the Boston banks in payment of the New England checks collected for them. This is done through the city clearing at 10 a. m.

HOW THE CLEARING-HOUSE PAYS.

As paymaster of the country collections the Boston clearing-house has the peculiarity of being a member of itself. What any member has a right to do at the exchange of city checks and ensuing settlement of balances, the manager can do, for he represents the clearing-house—this member of itself. Every member has a desk and number. His desk is the first one, marked "A, Mass." in our diagram (p. 76). His number is 100. He knew on October 4, 1902, for example, that all the other members held his receipts issued against checks left with him for collection on October 2. Besides, two of the members held between them four more credit receipts which he had issued since by way of adjustments. At

Form D

Boston Clearing House.

FOREIGN DEPARTMENT.

Oct. 4/02

Amount of New York Exchange charged this day to the

Massachusetts National Bank *\$21,697.83*

C. A. RUGGLES,
Manager.

Ticket for Amount of New York Exchange Charged.

10 o'clock the messenger of No. 55, Mechanics' National Bank, would leave on the desk of No. 100 an exchange slip, footing \$16,053.95, with the manager's receipt of equal amount (see illustration). The messengers of all the members would file past, leaving exchange slips with his thirty-five receipts attached, and expect him to take care of them.

EXCHANGE SLIP.					
NUMBER 100.					
FROM					
No. 55, Mechanics National Bank.					
<i>Oct 4 1902</i>					
16	053	95			

Meanwhile his messenger would be leaving at the desks of these very same members checks for nearly two million dollars drawn on them by New England banks and remitted to him, together with some \$250,000 in checks on New York, also checks returned or advised unpaid and various debit charges to adjust accounts. In general, he knows there will be ample provision for all his indebtedness. The only solicitude is a temporary one as to the exact balancing of his debits and credits.

EXCHANGE SLIP.

No. 1,
MASSACHUSETTS
 FROM NO. 100.

DATE Oct 4 1902.

7	487	95	3	066	24
13	698	16	8	469	24
3	594	84	1	363	26
4	620	06	1	618	72
6	823	49	2	277	93
	224	36	2	161	37
	102		1	821	28
	14	15		25	39
	445	89		336	99
	166	89		181	03
	353	23		376	38
1	771	88			
39	302	90			
21	697	83			
61	000	73			

Take his exchange slip on the Massachusetts National Bank, which shows the claims of No. 100 on No. 1 in the city clearing (see illustration, p. 101). The left-hand column gives the amounts of the checks drawn on the bank by its New England correspondents and remitted to the manager, some debit charges to adjust errors, and the amount of an unpaid check left for collection and held for protest, but charged against it upon advice and notice; the check to be returned later. The manager's clerk has entered in the right-hand column eleven New York checks. This slip reproduces the figures of the manager's "making-up sheet" on which are entered against each Boston bank under its name all his claims for the day. On the sheet the second column (New York exchange) is in red. Altogether the manager debits the Massachusetts National Bank with \$61,000.73, and thus offsets 92 per cent of all the claim that it has on him (\$65,831.61), leaving but \$4,831 for him to provide for from other sources.

The manager has no debit to charge against No. 55, Mechanics' National Bank, to offset its credit of \$16,053.95; practically none against six banks in all that have no New England correspondents to whom he sends checks for collection. He has credited them with \$142,000 and has only one debit charge in adjustment of \$22 against one of the six. On the other hand, No. 21, National Exchange Bank, credited with \$105,000, has numerous New England correspondents who have remitted to him checks on it for \$270,000, which not only offsets the credit but also provides funds to settle with all these banks without such correspondents. What he owes ten banks is thus offset by what each owes him. Moreover, the aggregate excess of their debits places him, in his relation with them, \$700,000 to the good, which, in general, must well provide him with means to meet the claims of the other members.

Boston Clearing House Settling Sheet. Oct. 2nd 1902

No.	NAME.	DEBIT.	CREDIT (BY CHECKS FOR COLLECTION)	CREDIT BY ADJUSTMENTS	TOTAL CREDIT (INCLUDING ADJUSTMENTS)	No.
1	Massachusetts National.	61 000 73	65 831 61		65 831 61	1
2	National Union.	22 83	45 310 24		45 310 24	2
3	Old Boston National.		42 213 01		42 213 01	3
4	State National.	68 206 06	79 073 50		79 073 50	4
6	New England National.	10 478 73	5 775 80		5 775 80	6
12	Atlantic National.	26 371 56	33 188 09		33 188 09	12
13	Merchants National.	89 465 46	76 401 93		76 401 93	13
15	National Hamilton.	1 385 44	2 522 82		2 522 82	15
17	Second National.	85 064 15	139 690 75		139 690 75	17
18	Atlas National.	15 868 98	25 720 25		25 720 25	18
20	National Shawmut.	340 857 45	475 238 44	141 525 24 1 021 65	617 795 33	20
21	National Exchange.	270 940 05	105 439 76		105 439 76	21
22	Nat'l B'k of Commerce.	31 451 40	113 341 10		113 341 10	22
24	Faneuil Hall National.	546 89	49 557 62		49 557 62	24
25	National Webster.		6 458 56		6 458 56	25
26	Eliot National.	165 460 82	81 492 58		81 492 58	26
28	National Suffolk.	81 678 68	72 472 11		72 472 11	28
31	Freemans National.	18 379 52	27 221 55		27 221 55	31
33	Boylston National.		16 230 80		16 230 80	33
37	Nat'l B'k of Redemption.	544 631 04	212 346 46		212 346 46	37
39	First National.	91 064 37	54 483 01		54 483 01	39
41	Nat'l Bank of Republic.	80 587 46	160 348 45		160 348 45	41
43	Mt. Vernon National.		15 813 05		15 813 05	43
46	National Security.	13 914 26	17 448 88		17 448 88	46
49	Central National.	27 856 51	54 319 50		54 319 50	49
50	Colonial National.	23 533 55	67 688 95		67 688 95	50
51	Fourth National.	82 402 01	54 981 71		54 981 71	51
52	Metropolitan National.	12 429 86	29 073 76	30	29 074 06	52
53	Winthrop National.	58 247 80	29 332 38		29 332 38	53
55	Mechanics National.		16 053 95		16 053 95	55
56	Commercial National.	44 140 20	41 450 25		41 450 25	56

FOOTINGS

2243 985 83 2216 520 87 142 557 19 2359 078 06
 115 092 23 ~~142 557 19~~
 2359 078 06 2359 078 06

Manager's Proof of the New England Clearing.

To understand the method of balancing his account, we conclude this chapter with a description of the

MANAGER'S PROOF.

The settling sheet, with which the manager proves his account, is reproduced on the preceding page. It is of the usual size, with the names of the banks printed down the left-hand margin and numbered, and corresponding numbers placed at the ends of the lines on the right-hand margin. The formation of the sheet naturally begins with the second column of figures (credit by checks for collection), which are taken from the credit tickets of the respective banks and represent the amounts of checks left for collection on October 2. The amount of the credit ticket is seldom changed, but may be on the same day. If afterwards the amount is found to be wrong by the bank presenting the ticket, the alteration is not made in this column, but effected by entering or including the difference in one or other of the adjoining columns to the right or left.

Additional credits are entered in the third column (credit by adjustments). Only two banks (Nos. 20 and 52) had such additions to the amounts of their credit tickets on October 2. The manager issues a credit receipt for every amount entered in the second and third columns. With thirty-one entries in the second column (one for each bank) and four in the third, he knows there must be thirty-five of his credit receipts outstanding. The footing of the third column added to the footing of the second gives him the total credit which he has allowed the banks and must look after.

The total credit is proved through the fourth column of figures (total credit, including adjustments). In all the cases but two, the credit of each bank is without any increase on October 4, when the credit receipts are presented to the manager for redemption and payment in the morning settlement. Each of the banks, except two,

holds one receipt of identical amount with that of its credit ticket, which amount is entered unchanged in the fourth column as its total credit. No. 52, Metropolitan National Bank, has two receipts, making its total credit 30 cents more than the amount of its credit ticket. No. 20, National Shawmut Bank, holds four credit receipts, making its total credit exceed the amount of its credit ticket by \$142,556.89. As the total credit represents all the credit receipts based upon the credit tickets and credit adjustments, the footing of the fourth column must, when the proof of the credit side is made, equal the combined footing of the second and third, which it does here.

The debit side, what the manager charges against the banks and they are to pay him, is compressed into one column—the first. All checks drawn on these banks and remitted to him by the country banks, any currency and all New York exchange remitted to him, all debit charges by way of adjustment, are represented in this first column. No. 2, National Union Bank, happens to have entered a check twice on a slip and \$22.83 is charged back. Several have no debits: the manager has received no checks drawn on them, has no currency and no New York exchange for them to take off his hands this day, no adjustments to make with them. The footing of this column is the total debit, which must be compared with the total credit. The comparison shows that less is coming from the Boston banks than the manager has to pay them. The difference represents remittances not yet received at twenty minutes to 10 o'clock on the morning of October 4.

DELAYED REMITTANCES, HOW ADJUSTED.

Just before the Boston plan began operations, on June 8, 1899, the Boston banks were instructed that if the remittance from any out-of-town bank should not be received on the morning on which the credit receipts were to be charged against the manager, he would charge

against each Boston bank its proportionate amount of such delayed remittance.* The out-of-town check ticket or stub of the slip which is attached to every package of checks and carries their footing, had at first the following directions printed on it:

If remittance for the above amount be delayed this ticket will be charged into the morning settlement and the holder will be notified when it may be presented.

The amount of delayed remittances on October 4 was \$115,000, which means that some 350 packages of checks were not yet paid. To select the corresponding 350 check tickets and charge them into the morning settlement against the respective banks would take time, much more than the manager has at his disposal before 9:40 a. m. without neglecting the useful work of charging into the settlement some remittances already received at that hour. The apprehension that this might not be practicable caused the clearing-house committee at the start to notify the members that "for a very few days payment will be made in three days after the deposit at

*Section 13 of the Constitution of the Boston Clearing House provides: "For the purpose of collecting New England items and distributing the funds received in payment thereof, the Clearing House itself may take part in the morning settlements as No. 100, if so ordered by the Clearing House Committee; and whenever checks which are not good are charged against any member of the Association by the Clearing House, such checks shall be returned to the Manager of the Clearing House as soon as it shall be found they are not good, and in no case shall they be retained on Saturdays after half-past eleven o'clock A. M., nor on other days after one o'clock P. M.; and the Manager shall immediately notify all members of the Association in payment of whose collections such checks shall have been received, and shall reimburse the Bank returning the checks not good by his draft upon the Clearing House to be collected through the exchanges of the following day, and at the same time shall charge against each Bank in the Clearing House its respective proportion of the amount of such checks returned not good."

the clearing-house. As soon as the system is fairly in operation, the payment will be made in two days after deposit, except in a very few cases."

Probably \$75,000 of the delayed remittances on October 4 was received before 1 o'clock; and if, as in London, checks could be charged into the daily settlement as late as 4 p. m., the difference between the total debit and credit would have been little or nothing instead of \$115,000. As it was, it being demonstrated upon trial that several hundred check tickets could not be charged into the morning settlement during the few minutes in which the last of the necessary work was hurried through, the committee had the manager settle in two days by borrowing the difference from day to day.

BORROWING UNNECESSARY.

If the loan were without interest it would not matter; but one day's interest on \$115,000 at 6 per cent is \$19. On October 3, 1902, the difference was \$141,501, which was borrowed at 6 per cent. and paid on October 4 with \$23.58 interest. This accounts for the large credit adjustment of \$141,525.24 which so materially increases the total credit of No. 20 on the settling sheet. If this loan had been made on Saturday or before a holiday, the interest would have been \$47. Usually the amount of delayed remittances is much less, the rate of interest lower. Occasionally both are higher.

The daily difference can be adjusted without borrowing. It is fair to assume that the delayed remittances will, on the average, affect the banks in proportion to the several amounts of checks left by them for collection. Those left on October 2 and to be paid on October 4 amounted, in even thousands, to \$2,103,000. Five per cent of this is \$105,150; six per cent, \$126,180; and the difference to be adjusted, \$115,092. Suppose at the last moment each bank is debited six per cent of the checks left by it for collection. In the case of No. 1, Massa-

chusetts National Bank, six per cent of \$65,000 would add \$3,900 to its debit, making the latter \$64,900.73. No. 2, National Union Bank, would have six per cent of \$45,000 or \$2,700 added to \$22.83, making its debit \$2,722.83. If six per cent was thus added to the debit of each bank the total would be \$11,087.77 too much. Now, suppose No. 20, National Shawmut Bank, the largest in Boston, instead of being debited six per cent of \$475,000 (\$28,500) is charged with \$11,087.77 less (that is, \$17,412.23), making its debit \$358,269.68; or suppose No. 37, National Bank of Redemption, instead of being debited with six per cent of \$212,000 (\$12,720), has its debit increased only \$1,632.23. In either case the total debit becomes equal to the total credit, and the proof is made.

The same result can be reached by debiting all but one of the banks five per cent and that one, in addition, \$9,842.23, which is the excess of the difference (\$115,092.23) over five per cent of \$2,103,000 (\$105,150).

Of course, if a bank is favored one day to the extent of \$11,000 and overcharged the next \$9,000, it is easy to see that with a little care in the selection of percentages even-handed justice can be maintained by the manager in availing himself of the bank's good offices.

While the Boston rule, which can not be carried out, of charging check tickets into the morning settlement against delayed remittances often involves entering hundreds of amounts on the manager's "making-up sheet" and exchange slips at the last moment when there is no time, the addition of a given percentage, as here proposed, requires only a single adjustment for each bank, or thirty entries in all with the present membership, and is practicable.

A special form of debit ticket somewhat like that used in charging New York exchange (p. 99) should be printed for this adjustment, giving the amount

of delayed remittances charged to a bank, and indicating that it would be credited with the same amount in the next settlement upon presentation of the ticket. The next day the bank would be credited with the amount as an adjustment and the ticket accepted as a credit receipt. By that time, generally speaking, the remittances would have been received. If not, they would make part of another day's delayed remittances. Every day every bank would have this debit adjustment and the next day the corresponding credit adjustment. There would be no bank on the settling sheet without a debit charge and none without a credit adjustment. The total debit would be expected to equal the total credit. Any shortage whatever would show an error to be traced and found. Daily the sheet would be balanced to a cent, and the proof made.

Borrowing to adjust a difference, though expensive, saves these entries, and it does not in the least interfere with the smooth running of the Boston plan; but it is unnecessary and should nowhere be imitated. The entries it saves cost nothing to make; the time and trouble do not signify; besides it is strictly a question of accounting. Borrowing is not bookkeeping, and implies a want which accounts can not fill, whereas the settling sheet lacks but a few entries at any time to make it quite as useful and effective as a loan in offsetting a difference.

Notwithstanding the waste of interest on needless borrowings, the cost of collecting New England checks by the Boston plan is small, as will be explained in the next chapter (p. 114). It will be compared with the cost at New York City where the collection of out-of-town checks through the clearing-house is unknown.

SUMMARY.

To sum up, the Boston clearing-house has constituted itself an agency through which members can collect any out-of-town checks on points in New England

not drawn on their own correspondents. Drafts on correspondents, of course, they send direct.

Each Boston bank sorts the checks by banks, making one package for each out-of-town bank with list of checks attached. The packages, sorted by States and alphabetically by towns in each State, are taken every afternoon to the clearing-house and placed on designated desks behind which are twenty clerks who sort the packages by banks, bringing those on each New England bank together. All packages to be presented to a bank are listed on a letter and inclosed with it. Daily the clearing-house sorts, lists, and mails 7,000 packages to 615 banks.

The country bank settles with the manager, he with members. The banks remit, for the most part (about 90 per cent), checks on their Boston correspondents. The remainder of the remittances are checks on New York, at times some currency, and checks returned unpaid. The manager charges the New York exchange and currency to the Boston banks in proportion to their business with him. In the end, they owe him as much as he owes them, errors and omissions excepted.

To clear his debits and credits, the clearing-house acts as a member of itself, having a desk and number like any member. The banks charge it with the out-of-town checks left for collection, and it charges them with the checks drawn on them and remitted to the manager, also with the New York exchange and currency. The one side balances the other, upon proper adjustments for errors, omissions, and delayed remittances.

The settlement is through the regular morning clearing on the second business day after the checks to be collected are delivered at the clearing-house and mailed to the country banks.

To keep the accounts straight, check tickets are used. The manager checks the amount of each package by the footing on the stub he retains of the slip which accom-

panied it. He checks the amount of each letter by the footing on its stub which he retains. He checks his receipt for collections by the credit ticket each bank presents, giving the whole amount of checks it claims to have delivered, and the amount on each State. Thus extraordinary accuracy is attained with ease.

The system has practically shown capability to provide for the collection of checks on any number of banks.



CHAPTER VII.

NEW YORK WILL FOLLOW.

Progress in Clearing—Wrestling with the Subject—Low Cost of the Boston Plan—New England will Remit at Par—Proposed Free Zone—Why Some City Banks Object—New York and St. Louis Charges Compared—Minimum 10 instead of 15 Cents—Public Clamor Lowered the Charges—St. Louis Charges Only City Customers—New York Charges Out-of-Town Banks—Impaired as a Collecting Center—Out-of-Town Checks Still Used—Profits Obtained by Imposition—The Reaction—Summary.

AS numerous banks in New York opposed the clearing of city checks in 1853, it might have been expected that some would oppose the clearing of country checks in 1903. "You know," said the president of one of its largest banks to me in 1899, "New York is slow." Born and bred there, I had not thought so. Taking half a century to learn some things appears not so long when you consider that New York banks went fifty years without a clearing-house. But this is the fiftieth year they have had one, and there are indubitable signs that they will soon clear out-of-town checks.

PROGRESS IN CLEARING.

Though the clearing of bank checks advances slowly and irregularly, progress is made. Twenty years after the first of the London joint stock banks was established (1834), the clearing-house admitted them to membership

(1854). Ten years later (1864) the Bank of England joined, after being outside for nearly a century. Even now the Bank clears only one side of the account—its claims on members. Their claims on it they have to present at its counter as of old. Meanwhile (1858) the London clearing-house began to clear country checks. As a result, all the banks in England outside of London have their checks collected through the clearing-house. At the metropolis the development of the clearing system still falls short of universal extension. In London not many banks use the clearing-house—only the twenty-one members, and I know not how few besides. Checks on numerous other banks are collected at their counters by “walk clerks,” as was done with all checks on the joint stock banks until 1854.

In most American cities banks either are members of a clearing-house or clear through members. All in New York, for instance, except a number of private bankers with deposits subject to check, and some dozen trust companies, whose checks are collected at their counters. But the clearing of out-of-town checks is quite undeveloped at the American metropolis. In this respect New York is behind London, Manchester, etc., Boston and Sedalia. It can not long remain behindhand.

WRESTLING WITH THE SUBJECT.

In 1899, two months before Boston commenced to clear New England checks, New York took decisive action, making a practical protest or remonstrance against the existing state of out-of-town collections. Suddenly deploring, discouraging and decrying the use of out-of-town checks in the city, the associated banks unitedly undertook the impossible task of shutting them out. The collection had proven too slow and expensive. They estimated that it took six days to collect checks on New Jersey points, and hence cost 66 cents per \$1,000 in interest at 4 per cent, together with \$1 in cash charges,

or a total of \$1.66.* Since April 3, 1899, they have charged depositors and correspondents \$1 per \$1,000 for collecting checks on all New Jersey points, except Hoboken, Jersey City, Bayonne and Newark; therefore, they still bear two-fifths of the estimated cost. In 1900 a New York court decided that a New York bank was not duly diligent which took three days to present a check drawn on a bank in Perth Amboy—a town only twenty-two miles distant. By the Boston plan all checks on New Jersey points deposited in New York City banks would be in the mails the same night and presented the next morning to the banks drawn on; and payment being made by New York draft on day of receipt, the money would be back in the New York clearing-house on the day following. Thus the time of collection would be reduced from six to two days and the time cost reduced from 66 cents to 22 cents.

All Massachusetts banks remit at par to the Boston clearing-house. And, assuming that New Jersey banks would act as the Massachusetts banks do, there would be no cash cost in the sense of the New York computation, in which it referred to the actual cash charges made by banks for paying checks drawn upon themselves. There is another slight cash cost, the actual expense of collection through the clearing-house. From several years' experience in Boston, this cost may be estimated at 5 cents (it would really be much less) per \$1,000 for the New York clearing-house.

LOW COST OF THE BOSTON PLAN.

Forwarding a large volume of checks through a central agency necessarily tends to decrease the expense; and the greater the volume, the less the average expense per dollar. During the first year of the Boston system, ending June 7, 1900, it cost the Boston clearing-

*James G. Cannon: "Address before the Bank Presidents' Association of Boston, May 16, 1900," p. 7.

house \$45,000 to collect \$416,000,000. This included the cost of the outfit—principally, a number of Burroughs's arithmometers—and made the cash cost 11 cents per \$1,000. During the second year, ending June 7, 1901, it cost \$37,000 to collect \$546,000,000. This brought the cash cost down to 6 cents and eighty-one hundredths per \$1,000. Incidental expenses in the third year raised the cost to 7 cents on a slightly increased volume of business. Deducting outlays for unnecessary collections by express and interest on unnecessary borrowings, the cost falls to 6 cents per \$1,000 for the year ending June 7, 1902; and if all New England checks, not sent direct to correspondents, were cleared, the cost would not be over four cents. In New York the total expense might be doubled or trebled, but the volume of business would be increased many times, so that the average cash cost, instead of being even 5 cents, would be more likely 2 or 3 cents per \$1,000.

With the time cost 22 cents and the cash cost 5, the cost of collecting New Jersey checks would be 27 cents instead of \$1.66 per \$1,000; a reduction of 83 per cent.

New Jersey is selected merely as an example of what New York might accomplish by adopting the Boston plan to collect checks on the surrounding country. Another example may be better, because some New York bankers see such lions in the way that it is hard for them to realize the possibilities in new fields. They can not deny that the plan does apply to some checks when cleared through Boston. It should not be difficult to understand that, if the banks drawn on will treat New York as they do Boston, the same checks could be collected as directly through Manhattan as through the Hub.

NEW ENGLAND WILL REMIT AT PAR.

Over four hundred New England banks have expressed to me in writing their willingness to remit at par on day of receipt for checks drawn on them and for-

warded by the New York clearing-house, on condition that such checks shall be free of discount or charge to depositors by New York banks. There will be no cash charge made for remittance by the banks, and the time cost will be only two days (22 cents). There is also the cost of handling at the clearing-house (5 cents), making the total 27 cents per \$1,000. As to New England checks, collected for city depositors, the time cost is really but one day (11 cents) as compared with New York checks deposited the same day; that is, checks on New York City banks are not paid at the clearing-house until the next day, and these New England checks would be paid on the next day but one. The total cost on these checks would be 16 cents per \$1,000.

Compare this with the estimated expense. The cost of collecting New England checks, as computed by the New York banks, was six days' interest, or 66 cents per \$1,000, for the four States of Massachusetts, Rhode Island, Maine and New Hampshire. According to this, the New York charge of \$1 to depositors shows a profit of fifty per cent on the cost. The computed cost of collecting Connecticut checks was six days' time (66 cents) and a cash cost of 50 cents—a total of \$1.16. Vermont checks were computed to cost three days' time (33 cents) and \$2.50 in cash—a total of \$2.83 per \$1,000. Here the New York charge of \$1 shows a loss of 16 cents on Connecticut checks and \$1.83 on Vermont checks per \$1,000.

On December 23, 1901, I began asking New York bankers if they would take off the charge on New England checks and collect them through the clearing-house, provided several hundred banks in New England would do for New York what these banks do for Boston; that is, pay promptly in full. On January 6, 1902, the late Frederick D. Tappen, president of the Gallatin National Bank, assured me that if the New England banks

made their proposition it would be considered and favorably received.

Upon this invitation of a most prominent and influential New York banker, I submitted the annexed printed form to the banks of New England and obtained propositions from 275 (67 in Connecticut, 130 in Massachusetts, and the rest in the other States).

....., 1902.

To the New York Clearing House Association:

Whenever the Associated Banks of New York will accept checks on us at par, we are willing to remit at par in New York exchange on day of receipt for all checks drawn on us and presented by the Manager of the New York Clearing House or by our New York correspondent.

Seven-eighths of the New England banks remit at par to Boston and would do the same to New York. In another chapter (page 61) I have already shown how par remittance can be secured from the remainder. Hence, the propositions made to New York in 1902 practically mean an offer of par remittance from all.

PROPOSED FREE ZONE.

The experience of the London and Boston clearing-houses conclusively shows that the cost of collecting out-of-town checks drawn on banks that can be reached in a night's mail is no valid excuse for excluding such checks from New York City. London is the clearing point of a division comprising England and Wales (58,186 square miles), Boston the clearing point of another division comprising New England (62,005 square miles). New York City ought to be the clearing point of a third division comprising at least the western portion of New England, the five States of New York, New Jersey,

Pennsylvania, Delaware and Maryland, and the District of Columbia (about 150,000 square miles).

WHY SOME CITY BANKS OBJECT.

In delaying to clear New England checks, the associated banks of New York occupy an anomalous position. Country banks, not city banks, are generally imagined the only objectors. Here hundreds of out-of-town banks, instead of objecting, ask for it, while the city banks, by putting off the acceptance of offers which New York bankers invited, appear to be against country clearing.

It is not the cost of collections but the profit that has moved a few bankers to keep New York for a year from following the example of London and Boston.

Let us see where New York got the present idea of profiting by collections through direct charges to depositors, how far the original scheme was followed, what effect certain modifications have had, and whether the gains now enjoyed by a few banks may be regarded as a permanent form of income.

NEW YORK AND ST. LOUIS CHARGES COMPARED.

The charge-system of New York is the charge-system of St. Louis remodeled, with alterations in principle and practice.* There is an outward resemblance.

*The New York Clearing House Association adopted on March 13, 1899, an amendment to its Constitution, which added to Section 8 as follows:

"The Clearing House Committee shall have power to establish rules and regulations regarding collections outside of the City of New York, by members of the Association or banks or trust companies or others clearing through such members, and the rates to be charged for such collections, and also providing for the enforcement of the same. The Committee may from time to time make any additions to, or changes in, such rules and regulations as it deems judicious. After any rule or regulation upon the subject has been once established, it shall not, however, be al-

Both divide the United States into two districts, charging one-tenth of 1 per cent for collections in the home district and one-quarter of 1 per cent in the other. Both have the same States and Territories in each, except Iowa and Minnesota, which St. Louis puts in the "one-tenth" district and New York in the "one-quarter." New

tered or rescinded until it has been in force at least three months, except by majority vote of the Clearing House Association."

The resulting New York rules and regulations will now be placed in parallel column with those of St. Louis, which suggested them:

ST. LOUIS RULES.

The following rules and regulations have been adopted by the "ST. LOUIS CLEARING HOUSE ASSOCIATION," and are declared obligatory after the first of March, 1895, upon all the banks who are members of said Association, as well as those banks and trust companies who will make their clearings through the Clearing House of said Association.

Collection Charges.

Every bank and trust company member, or connected with said Clearing House as stated above, shall charge

for all items received from St. Louis city customers and passed direct to their credit,

NEW YORK RULES.

(Took effect April 3, 1899.)

Pursuant to authority conferred upon it by the Constitution of the New York Clearing House Association, the Clearing House Committee of said Association establishes the following rules and regulations regarding collections outside of the City of New York, by members of the Association, or banks, trust companies, or others clearing through such members, and the rates to be charged for such collections, and also regarding enforcement of the provisions hereof.

SEC. 1. These rules and regulations shall apply to all members of the Association, and to all banks, trust companies or others clearing through such members. The parties to which the same so apply are hereinafter described as collecting banks.

SEC. 3. For all items from whomsoever received

York adds the District of Columbia to the "one-tenth," Canada to the "one-quarter" district. St. Louis mentions neither.

MINIMUM 10 INSTEAD OF 15 CENTS.

The minimum charge of St. Louis is 15 cents, of New York 10 cents. Suppose Boston charged at least

ST. LOUIS RULES.	NEW YORK RULES.
or cashed for any resident of said city on points (except those hereinafter declared discretionary)	(except on those points declared discretionary in Section 2),
in Maine, Massachusetts, New York, Delaware, Kentucky, Michigan, Missouri, New Hampshire, Connecticut, Pennsylvania, Virginia, West Virginia, Ohio, Wisconsin, Minnesota, Vermont, Rhode Island, Maryland, Indiana, Illinois, Iowa and New Jersey,	payable at points in Connecticut, Delaware, District of Columbia, Indiana, Illinois, Kentucky, Maine, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, and Wisconsin,
not less than 1-10 of 1 per cent. of the amount of the item,	the collecting banks shall charge not less than one-tenth of one per cent. (1-10%) of the amount of the items respectively.
and if said per cent., when calculated upon any such item, does not equal 15 cents, the charge shall not be less than that sum. Provided, that all items received at any one time, from any customer, and payable at one place, may be added together and treated as one item, and be charged for as if they were one item.	[Compare with Section 5, below.]
And for all such items (except those hereinafter declared discretionary) on points in	SEC. 4. For all items from whomsoever received payable at points in Alabama, Arizona,

15 cents on each of the 70,000 checks that pass daily through the New England department of the clearing-house. It would be \$10,500 a day or \$3,150,000 yearly. As the checks average about \$30, a charge of 15 cents would be one-half of 1 per cent, or \$5 per \$1,000. Last year's cost of collection through the clearing-house was only one-seventeenth of \$5; that is, 29 cents (time 22, ex-

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North Carolina, Florida, Louisiana, Indian Territory, Arizona, Wyoming, Montana, Oregon, Nebraska, South Carolina, Alabama, Arkansas, New Mexico, Utah, South Dakota, Idaho, California, Georgia, Mississippi, Texas, Kansas, Nevada, North Dakota, Washington, Colorado, Tennessee and Oklahoma, not less than $\frac{1}{4}$ of 1 per cent. of the amount of the item,

and if said per cent., when calculated upon any such item, does not equal 15 cents, the charge shall not be less than the latter sum; provided that all items received at any one time, from any customer, and payable at one place, may be added together and treated as one item, and be charged for as if they were one item.

On all such items drawn "with exchange," the charge shall be one-half of the foregoing rates, except those on

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Arkansas, California, Colorado, Florida, Georgia, Idaho, Indian Territory, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming and Canada, the collecting banks shall charge not less than one-quarter of one per cent. ($\frac{1}{4}\%$) of the amount of the items respectively.

SEC. 5. In case the charge upon any item at the rates above specified does not equal ten cents (10c.), the collecting bank shall charge not less than that sum; but all items received from any one person at the same time and payable at the same place may be added together and treated as one item for the purpose of fixing the amount chargeable.

(Items upon which appear the words, "Payable in New York exchange," or "With New York exchange," etc., are

pense 7) per \$1,000. Suppose New York collects three times as many (210,000) and charged not less than 10 cents apiece, or \$21,000 daily, and \$6,300,000 yearly. It is usually estimated that the New York charges aggregate \$3,000,000 annually.

PUBLIC CLAMOR LOWERED THE CHARGES.

New York defines the minimum charge in essentially the same terms as St. Louis, but substitutes 10 cents for 15 cents. St. Louis enforces the rule as it stands; New York does not.

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which the charge of 15 cents is fixed.

On all such items on the cities of New York, Brooklyn, Jersey City, Boston, Philadelphia, Baltimore, Chicago, Cincinnati, Louisville and New Orleans, and bank drafts on Banks in Kansas City, Mo. and bank drafts on Banks in St. Joseph, Mo., the charge shall be discretionary with each Bank or Company.

Banks and Trust Companies shall not be obliged to impose any of the foregoing charges on their accounts or dealings with the United States Government, the State of Missouri, the City of St. Louis, Steam Railroad Companies or the Board of Public Schools, of the City of St. Louis.

Time for Collecting Charges.

Each Bank or Trust Company member of or connected

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subject to the collection charges established by the Clearing House Association, March 13th, 1899.—*Circular letter of the Clearing House Committee, January 24, 1901.*)

SEC. 2. For items collected for the accounts of, or in dealing with the Governments of the United States, the State of New York, or the City of New York, and for items payable in the cities of Boston, Mass., Providence, R. I., Albany, N. Y., Troy, N. Y., Jersey City, N. J., Bayonne, N. J., Hoboken, N. J., Newark, N. J., Philadelphia, Penn., Baltimore, Md., the charge shall in all cases be discretionary with the collecting bank and the same shall not be governed by the provisions of these rules and regulations.

SEC. 6. The charges herein specified shall in all cases be collected at the time of deposit

At first the New York banks proposed to charge not less than 10 cents for each out-of-town check collected, with an exception here and there. The *New York Tri-*

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with the St. Louis Clearing House shall actually collect the foregoing charges on all items not later than the third day of the Calendar Month next following the receipt or handling of the item or issuance of the draft or check. And no such bank or trust company shall directly or indirectly allow any abatement, rebate or return of any such charges or make in any form whether of favor or otherwise any compensation therefor.

Contracts of Banks and Trust Companies clearing through other Banks.

Every bank or trust company not a member of this Association which may desire to make its clearings through the Clearing House of this Association shall deposit with the Secretary of this Association a copy of a resolution of its Board of Directors worded as follows:

"Whereas, this corporation is about to acquire the privilege of clearing and making exchange of its checks through the Clearing House of the St. Louis Clearing House Association, Now, Therefore, be it resolved, that this corporation

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or not later than the tenth day of the following calendar month. No collecting bank shall, directly or indirectly, allow any abatement, rebate, or return for or on account of such charges or make in any form, whether of interest on balances or otherwise, any compensation therefor.

SEC. 7. Every collecting bank, trust company or other corporation not a member of the Association, but clearing through a member thereof, shall forthwith adopt by its Board of Directors a resolution in the following terms, and file a certified copy thereof with the Association as evidence as therein specified:

"Whereas, This corporation has acquired the privilege of clearing and making exchange of its checks through the New York Clearing House Association, and is subject to its rules and regulations, Now, therefore, Be it Resolved, that this

bune had reason to remonstrate. The annual subscription to *The Weekly Tribune* was \$1. From one hundred thousand subscriptions paid by check the banks proposed to rake off \$10,000—a tax of 10 per cent. The project

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does hereby assent to the rules and regulations adopted by said St. Louis Clearing House Association in so far as the said rules and regulations mention or refer to banks and trust companies clearing through members of said Association; and the President and Secretary of this corporation are now hereby instructed to deposit with the Secretary of said Clearing House Association a certified copy of this resolution."

Trial.

If information shall reach any member of the St. Louis Clearing House Association that a provision of the Constitution or a by-law, or rule or regulation of the Association has been violated by a member of the Association, or that a rule or regulation has been violated by some bank or trust company connected with the Association, it shall be the duty of such member to immediately report such information to the President, or in his absence to the Vice-President, whose duty it shall be to appoint a Committee of three who shall proceed to investi-

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corporation hereby in all respects assents to and agrees to be bound by and to comply with all rules and regulations regarding collections outside of the City of New York, which may be established pursuant to the Constitution of said Association, and that the President of this corporation is hereby instructed to file a certified copy of this resolution with the Clearing House Association as evidence of such assent and agreement on the part of this corporation."

SEC. 8. In case any member of the Association shall learn that these rules and regulations have been violated by any of the collecting banks, it shall immediately report the facts to the Chairman of the Clearing House Committee, or in his absence, to the Manager of the Association. Upon receiving information from any source that there has been a violation of the same, said Chairman, or in his absence said Manager shall call a meeting of the Committee. The Committee shall investigate the facts and determine whether a formal hearing is necessary. In case the Committee so con-

was denounced in an editorial, which called out many letters to the editor, particularly from newspapers and other concerns receiving myriads of small checks. The

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gate the matter and report to the President, or in his absence then to the Vice-President, that a trial is necessary or that it is not. If the report is that a trial is necessary, the Committee shall file written charges with the Manager and shall conduct the prosecution thereof. The President, or in his absence the Vice-President, shall call a special meeting of the Association for the trial, and notice in writing of the time and place of such trial, together with a copy of the charges, shall be served on the accused. Upon the trial the accused, as well as the Association, shall be entitled to submit evidence; and if the charges made, or any of them, are sustained to the satisfaction of three-fourths of all the members of the Association, the accused, if a member, shall be expelled from the Association, or if such accused is only connected with the Association through a member, then such accused shall be excluded from the privileges of the Clearing House.

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cludes, it shall instruct the Manager to formulate charges and present them to the Committee. A copy of the charges, together with written notice of the time and place fixed for hearing regarding the same, shall be served upon the collecting bank charged with such violation, which shall have the right at the hearing to introduce such relevant evidence and submit such argument as it may desire. The Committee shall hear whatever relevant evidence may be offered by any person and whatever arguments may be submitted and shall determine whether the charges are sustained. In case it reaches the conclusion that they are, the Committee shall call a special meeting of the Association and report thereto the facts with its conclusions. If the report of the Committee is approved by the Association, the collecting bank charged with such violation shall pay to the Association the sum of five thousand dollars, and in case of a second violation of these rules and regulations, any collecting bank may also in the discretion of the Association be excluded from using its privileges directly or indirectly, and, if it is a member, expelled from the Association.

Tribune printed with comments column after column (60 columns in all) of these protests against the scheme. Affected by the public clamor, the banks lowered the charge.

The following provisions of the St. Louis rules were not utilized by the New York clearing-house:

Items for Collection.

On all items taken for collection on points outside the City of St. Louis the charges shall be the actual cost incurred and in addition thereto a handling charge of 15 cents on each item whether collected or not; provided that said handling charge of 15 cents need not apply to bonds or coupons.

Premium on Eastern Exchange.

Upon all drafts or checks drawn by any bank or trust company member of or connected with said Clearing House Association on New York, Boston or Philadelphia, there shall be charged to the party taking the draft a premium of not less than 50 cents per 1,000 dollars; and if the premium thus estimated on the amount of any draft or check shall not equal 15 cents, then the charge on that item shall be the last named sum; provided that this rule shall not apply to the purchase and sale of exchange between members of the Clearing House or Institutions clearing through a member; and provided also that Banks and Institutions clearing through them may make such modifications of this rule as they may from time to time deem fair and expedient.

Liability as to Collections Limited.

No bank or trust company belonging to or connected with this Association shall be bound to use more than ordinary diligence in endeavoring to make collections of any item left with it for collection or by it passed to the credit of any customer. It shall not be liable for the neglect or failure of the channels or parties to or through which such item has to be sent; nor shall it be liable for the returns received thereon until such returns have been cashed. And in case of loss on any item for failure to collect or failure of returns, the bank or trust company shall be entitled to charge such loss back to its customer or to collect the same from the customer at once.

(For the New Rule, see POSTSCRIPT, p. 131.)

No less instructive is the way in which they granted relief. Under the proposed rules, when several checks on the same place were deposited at the same time, they could be added together and their collection charged for at the rate of either 10 cents or 25 cents per \$100, with a minimum charge of 10 cents. The clearing-house committee promptly decided that there were just two places in the United States—one in which the charge was one-tenth of 1 per cent, and the other in which it was one-quarter of 1 per cent.* If the *Tribune* deposited a hundred \$1 checks drawn on a hundred different cities in one section, the charge was not to be 10 cents each, as if they were drawn on a hundred places, but the same as for collecting \$100 drawn on a single point. This reduced the charge 99 per cent. Thus the *Tribune* won, and all depositors benefited somewhat by the victory.

For example, in New England 70,000 checks at 10 cents apiece would cost \$7,000; at \$1 per \$1,000 the charge would be \$2,100.

ST. LOUIS CHARGES ONLY CITY CUSTOMERS.

The charge-system of St. Louis places the whole burden on city customers and leaves each bank free to collect out-of-town checks for out-of-town banks without charge. The object is, firstly, revenue; and, secondly, the

**Circular Letter—March 30, 1899.*

The attention of the Clearing House Committee having been called to the fact that different interpretations have been made to the meaning of the words "at the same place," in Section 5 of the Rules regarding collections, as formulated by this Committee, and it not having been intended that the word "place" in the said Section should have the same meaning as the word "point" used in the preceding Sections 3 and 4; Therefore, this Committee declares that the said Section 5 shall be read so as to permit all items payable within the States, Territories and Districts enumerated in either Sections 3 or 4 to be added together and treated as one item when "received from any one person at the same time."

preservation of St. Louis as a collecting point for outside banks all over the country.

NEW YORK CHARGES OUT-OF-TOWN BANKS.

The charge-system of New York is based on the destructive principle of war against personal checks on local banks outside financial centers. The burden is placed not only upon city customers, but also upon out-of-town banks. The object is to repel out-of-town checks, to have New York no longer a collecting center.

IMPAIRED AS A COLLECTING CENTER.

Some say, New York will soon be the financial center of the world, in the sense that London is. If a Liverpool bank receives for collection a check on a Southampton bank, it is sent direct to London and from London direct to the Southampton bank drawn upon. Any English or Welsh bank can send direct to London a check on any other bank in England or Wales, and it goes from London direct to the bank drawn upon. Thus London is the center. Every out-of-town bank in England and Wales has a clearing agent in London. An immense amount of business is done by these out-of-town banks with one another through London. In this sense of permitting out-of-town banks to make their mutual exchanges through a common point, New York is not the collecting center of Hoboken. She was before April 3, 1899, but is not now. If a Hoboken bank has a check on a Yonkers bank, it may be sent to Philadelphia or Albany for collection. It may go up the west shore of the Hudson River to Albany and down the east shore to Yonkers. New York is not in it. Or, perchance, Hoboken's Albany correspondent does not send direct to Yonkers, but collects on that point through Philadelphia. Then the check might go through New York on its way from Albany to Philadelphia and again on its return from Philadelphia to Yonkers, but it would only pass through New York as through any other railroad station on the route.

New York City is not the collecting center of New York State. If Peekskill has a check on Poughkeepsie, it is not collected through New York, but may be through Albany or Philadelphia. The collecting center of New York State is badly dislocated. New York is not the collecting center of Albany or of New York's other free points—Troy, Philadelphia, Baltimore, Boston, Providence, Hoboken, Jersey City, Bayonne and Newark. In Greater New York a bank has to send outside to collect out-of-town checks to advantage.

OUT-OF-TOWN CHECKS STILL USED.

The use of out-of-town checks has not been abandoned. Collection facilities which New York denies except at prohibitive rates are secured elsewhere. Albany, Philadelphia and Baltimore have largely profited to the disadvantage of New York as a financial center. The tendency is to destroy New York as such a center. The great concentration of payments at New York counteracts. At first the volume of country checks in the city was reported to have been reduced 50 per cent. With the recent activity in business they have returned, it is said, in larger volume than ever. New York bankers solicit country accounts, pay interest to obtain balances, and then affect that the out-of-town check is a degraded instrument which should be taxed out of existence at the metropolis. Such an illogical attitude can not long be maintained. The plainest duty of a financial center is to be a collecting center and provide out-of-town banks collection facilities.

PROFITS OBTAINED BY IMPOSITION.

Generally speaking, when out-of-town checks are deposited by dealers in New York banks, the charge made is no more than the cost of collection. If the cost were reduced, as it would be by the adoption of the Boston plan, the banks could afford to abolish the charges on New England checks and any others embraced in the system.

In general, direct profit out of the charges furnishes no incentive to object to country clearing. However, there are many exceptions where the check is drawn on a correspondent of the receiving bank and collected without expense by debiting it at once to the correspondent's account. If the correspondent, in turn, had the use of a free list composed of the city bank's correspondents, there would be some compensation. As it is, the country bank is imposed upon. It has to keep a balance in New York for convenience in its business. It follows established custom in permitting checks on it to be charged out of its account. The city bank, for its part, withholds the use of its free list from a correspondent that has opened a reciprocal account with it, and drives its correspondent to make collections through other cities. Profit made out of such an unfair arrangement is obtained by imposition, and can not be a permanent source of income.

THE REACTION.

The rehabilitation of New York City as a collecting center has already begun. Out-of-town checks are received on deposit and collected without charge by some trust companies which, not being in the clearing-house or clearing through members, are not bound by its rules. There is talk of establishing a national bank, to be outside of the clearing-house, for the deposit and collection of New England checks without charge. Other evidences might be mentioned.

Checks on a trust company that does not clear, deposited in a New York bank one day, will not be presented till the next, and are then paid by draft on some clearing bank, which draft is not passed through the clearing-house till the following day. Such checks are paid in exactly the same time that New England checks deposited in a New York bank would be by the Boston plan; that is, on the second morning after deposit. In other words, the New England banks offer such terms

as the New York banks accept from some city institutions and private bankers. Already there is this close approximation in New York to the terms of payment which the Boston plan prescribes. And sooner or later New York will surely follow London and Boston in clearing out-of-town checks.

SUMMARY.

To sum up, the trend of the times is to clear out-of-town checks, as seen in England and New England.

Cost is no excuse for inaction, as clearing economizes and reduces cost.

New England banks are asking New York to clear their checks. According to good authority their proposition will be favorably received.

Some New Yorkers prefer the profits of a charge-system without clearing; but public opinion would not permit New York to make such charges as St. Louis makes.

St. Louis, charging only city customers, collects without charge for outside banks.* As the associated banks of New York charge both the city customer and the out-of-town bank, other cities (Albany, Philadelphia) are benefited, and the metropolis would be destroyed as a collecting center if the great concentration of payments there did not prevent.

New York's delay in clearing out-of-town checks is unnatural and temporary. In the end New York will follow London and Boston.

POSTSCRIPT.

*THE NEW ST. LOUIS RULE.

The St. Louis Clearing House Association has just announced a most opportune, logical and significant amplification of its rules governing the collection of out-of-town checks. On June 24, 1903, the following paragraph was added:

"All items received from or for the account of any Bank, Trust Company, Person or Firm outside of St. Louis, and bearing a St. Louis endorsement, shall be subject to the same charge as if received direct from a St. Louis Customer."

This amendment strikes at irregular collections, but not at all irregularities. One St. Louis bank, when some customer deposits checks drawn on the St. Louis County Bank, of Clayton, Mo., sends them not five miles but to a Chicago bank that mails them to this suburb of St. Louis, collects the full amount (p. 19), and settles with the St. Louis bank. Against merely circuitous routes the amendment does not strike. As examples of the collections affected, take the check that passed through Boston twice and New York twice (p. 12), and the following cases from the Boston report of 1877 (*supra*, p. 50):

"A check for eight dollars on the Ware National Bank, dated April 19th, favor of a Boston merchant, was deposited in a Boston bank the 20th, by that bank sent to North Adams, by North Adams sent to Springfield, by Springfield sent to Boston; on the 25th, six days after its date, sent by the second Boston bank to Northampton; whether the check has reached its destination or still continues its travels, is a problem we can not solve. Another case illustrates still more forcibly the absurdity of the present practice: A small check on Westboro was deposited in Park Bank, New York, by them sent to Bridgeport, by Bridgeport sent to Hartford, by Hartford sent to Worcester, a few miles from its home; Worcester sends it to the Park Bank, New York, and it again returns to Worcester, passing through the same banks as before."

The St. Louis Clearing House now says, not twice through St. Louis. If orderly procedure, based on good sense, is to be established in out-of-town collections, there is no better rule to begin with than this—not twice through the same place.

When a city customer, accepting the better terms of an outside bank, indorses a check on Peoria and sends it to Hannibal for collection and the Hannibal bank collects it through Chicago, St. Louis banks can not but regard the transaction as a result of legitimate competition. Until the new rule was adopted, if the check was returned to St. Louis by the collecting bank, the charge which a St. Louis bank would make the city customer was avoided. The collecting bank, his agent, had procured for him what he could not for himself. He had paid the outside bank for this service. Upon its return to St. Louis the check would still be his and uncollected. The real process of collection would not have yet begun, its round trip into the country having been but an outing, railroad excursion, pastime. It is at last in a St. Louis bank. Of course it should be treated "as if received direct from a St. Louis customer," and the remitter charged as his agent, though an out-of-town bank exempt in other cases,

We may infer from New York's experience why St. Louis, after submitting for eight years, has now corrected this abuse of its arrangements with outside banks. A Chicago firm that opened a big store in New York was last year sending out-of-

town checks (except on free points) to Philadelphia and receiving 2% interest on daily balances made up of uncollected checks. Another big or bigger store sends them daily to Philadelphia, its main store being there. A large concern that kept \$250,000 on deposit in a New York bank and paid \$5,000 annually for the collection of out-of-town checks, deposits such checks in Newark, N. J., keeps a balance of \$50,000 there (the accumulation of four days), and draws daily for all over that amount, thus saving \$5,000 per annum (equal to 10% interest on the Newark balance) and enjoying free collections. The Newark bank is an intermediary, turning the checks over to Philadelphia for collection. Another firm keeps a balance of \$5,000 in Poughkeepsie, N. Y., at 3% interest, and receives daily New York exchange for all deposits over that sum. This bank collects through Albany, N. Y. Besides driving out their city customers' deposits, the rules of New York banks have driven away country bank balances, until tens of millions of dollars have been diverted to Philadelphia and other cities. A few bankers in New York still think driving away business is better business than improving faulty methods of collection.

The St. Louis banks view loss of business with disfavor; hence, the new rule.

While nominally establishing charges, in certain cases, to others, the rule practically affects only city customers or residents; for an outsider is charged only when engaged as their agent in what, without the rule, would be an evasion of the usual charge to them. Incidentally, it prevents the return to St. Louis of checks that have once passed through a St. Louis institution in course of collection. Such checks, being few, may be disregarded. In general, the rules may still be said to require charges to city customers and permit free collections for outsiders.

CHAPTER VIII.

PROPOSED PLAN FOR ST. LOUIS.

Proposed Clearing District—Increasing Importance of St. Louis—Begin with Clayton—Other Missouri Points Ready—A Substitute for Exchange—Opposition Limited—Refusing Checks on Non-Clearing Missouri Banks—Free Collections—Manager of the Clearing House to Collect Some—Bank Drafts Honored First—Postage, How Apportioned—Distance and Time Annihilated—Drawing the Southwest Close Together—Summary.

PROPOSED CLEARING DISTRICT.

THE area commercially tributary, more or less, to St. Louis covers nearly a million square miles, and consists of twelve States and two Territories, which may be divided into three groups:

(1) To the southward, west of the Mississippi River, Missouri, Arkansas, Louisiana, Texas, Indian Territory and Oklahoma (500,000 square miles; number of banks, 2157);

(2) To the southward, east of the river, Illinois, Kentucky, Tennessee, Mississippi and Alabama (237,000 square miles; number of banks, 2199);

(3) To the north and westward, Iowa, Kansas and Nebraska (214,000 square miles; number of banks, 2580).

STATES AND TERRITORIES.	AREA. Sq. Miles.	BANKS.				
		National.	State and Trust Co's	Savings.	Private.	Total.
Missouri.....	68,431	81	567	54	110	812
Arkansas.....	53,045	12	159	4	17	192
Louisiana.....	45,399	31	93	5	16	145
Texas.....	265,780	350	20	3	185	558
Indian Territory....	30,717	76	60		26	162
Oklahoma.....	38,710	71	212	3	2	288
Total.....	502,082	621	1,111	69	356	2,157
Illinois.....	56,004	288	199	32	686	1,205
Kentucky.....	40,400	109	277	6	28	420
Tennessee.....	42,050	59	155	8	8	230
Mississippi.....	46,383	17	152	15	1	185
Alabama.....	52,250	40	75	8	36	159
Total.....	237,087	513	858	69	759	2,199
Iowa.....	55,697	232	271	317	568	1,388
Kansas.....	81,848	123	436	9	38	606
Nebraska.....	76,777	121	401	7	57	586
Total.....	214,322	476	1,108	333	663	2,580
Grand Total...	953,491	1,610	3,077	471	1,778	6,936

In round numbers there are here altogether 4687 national or State banks and trust companies, 471 savings banks and 1778 private bankers; a total of 7000 banks, public and private (January, 1903).

INCREASING IMPORTANCE OF ST. LOUIS.

Suppose it were possible for St. Louis to do on a large scale what Sedalia, Mo., does on a small one. Checks on fifteen points in the vicinity pass through the Sedalia clearing-house and are paid at par the same day as if Sedalia funds. All such checks are actually payable at sight in Sedalia, subject to return if not good. The arrangements made with the neighboring banks to effect this have brought to Sedalia from \$150,000 to \$200,000 of their deposits. These banks would not have made

such an arrangement if not advantageous. It being so, other banks elsewhere will, upon solicitation, make similar arrangements. Suppose St. Louis in like manner arranged with hundreds of points; the bank deposits of St. Louis would increase by millions of dollars.

If, as Sedalia collects on a few points, St. Louis could collect on all in most of the vast region described, the city would be unsurpassed as a collecting center for this part of the United States, and naturally attract collection accounts with remunerative balances which would still further increase the bank deposits of St. Louis.

Such an improvement in the collection of checks as this would be could not but prodigiously stimulate and support trade throughout this long range of States and Territories. The more the trade grew, the more St. Louis would, to keep pace with it. If, like checks in Sedalia on points around it, checks on points in all this section were treated upon arrival in St. Louis as city funds, because payable at some St. Louis bank and therefore received on deposit by banks without charge for collection, business men from afar would see in St. Louis a favorite place for enterprise and, coming here to live, setting up their factories, opening stores and offices, so add to its commerce and industries as soon to double the population and by that means enlarge bank deposits.

Sedalia is not the only place in the world where country banks have found it to their advantage to make their checks payable, if desired. For thirty years the same thing has been done, though unknown to Sedalia bankers, at Manchester, Newcastle-on-Tyne, and other cities in the north of England (p. 41).

BEGIN WITH CLAYTON.

Before asking St. Louis to open her gates and admit scot-free all checks on banks in the Southwest, let us consider whether it would be feasible for St. Louis banks to receive, free of charge, deposits of checks drawn on

the St. Louis County Bank, of Clayton, Mo. This bank is ready to make its checks payable at sight by its St. Louis correspondent through the clearing-house and chargeable to its account, subject to return if not good, provided they are received at par from depositors. At present Clayton charges St. Louis banks for paying its checks because the city depositor is charged for their collection. One day last fall a St. Louis bank mailed Clayton five checks amounting to \$97. Clayton deducted 15 cents. The St. Louis bank had charged its customers 75 cents. Another sent five checks amounting to \$331 (one being \$167). Clayton deducted 33 cents. The St. Louis bank had charged depositors 77 cents. A third forwarded four checks amounting to \$1,020 (one for \$1,000). Clayton deducted \$1.02, while the St. Louis bank had charged \$1.45. If a bank sent a single \$5 check, Clayton deducted 15 cents. If it was a single \$500 check, Clayton deducted 50 cents. And the St. Louis bank had no profit in either case. Clayton charges because St. Louis does. When St. Louis stops charging, Clayton will. Clayton charges only St. Louis. It does not propose to charge any bank in any place where Clayton checks are received at par. Under the circumstances, would it not be practicable for St. Louis banks to receive Clayton checks free of charge?

OTHER MISSOURI POINTS READY.

A Missouri bank, located not near the city, but at a distance of two hundred miles, which charges all St. Louis banks except its correspondent for remitting in payment of collections, is nevertheless ready to enter into just such an arrangement with St. Louis, as some out-of-town banks have with Sedalia. Its broad-minded officers consider improvements in banking beneficial. They would be pleased to see its checks received at par in St. Louis and, on that condition, would authorize its correspondent to pay all checks on it in full upon pres-

entation through the clearing-house, subject to return if not good.

Another Missouri bank, which clips 25 cents to \$2.50 daily off the amount of checks sent to it by one St. Louis bank, intends, as long as St. Louis will provide them, to enjoy these gains, which are not mentioned without a smile. Probably this St. Louis bank charges its city customers more and comes out ahead a few pennies daily; but it loses when the checks are received from out-of-town banks for whom it collects without charge. The cashier of the Missouri bank was asked by its St. Louis correspondent why he did not keep a larger balance with them. It was because Kansas City offered to do more for him. These daily profits, which he does not admire St. Louis for permitting, have not clouded or perverted the judgment of this Missouri cashier. He says St. Louis ought to adopt the Sedalia plan. That would deprive him of his exchange on checks from St. Louis, but enable him to collect without charge on points now an expense, and induce him to carry more money in St. Louis.

The cashier of a bank in western Missouri that nets \$5 a day exchange on its checks and desires the income, acknowledged that as its St. Louis correspondent credited it at par with collections on day of receipt, it was but fair to debit it with the full value of its checks when received on deposit and mailed for presentation, and that if its correspondent decided so to do, it would conform. This bank has 700 depositors, for the most part carrying balances so inconsiderable as to preclude profit on their accounts if exchange were not deducted from their checks when presented by mail for payment. Must it lose this?

A SUBSTITUTE FOR EXCHANGE.

One is well known abroad. In London, banks charge a small sum for the expense of keeping an account without an adequate balance. Charging fifty cents

a month to depositors with average balances under \$100 would give this bank more than \$5 a day. If remunerative relations are not established with depositors, that is no reason why the bank should be permitted to make it up by charging the wrong party—the collector of the check.

OPPOSITION LIMITED.

Missouri bankers who have had personal experience with the Sedalia plan are of opinion that St. Louis banks can safely adopt it with every assurance of success. In reply to inquiries, it was estimated that not more than ten per cent of the banks in Missouri would oppose the plan. This estimate corresponds with the result of experience in New England where one-eighth of the banks opposed the Boston plan.

The minority would consist principally of banks that at present charge extreme rates of exchange. A St. Louis bank was recently charged by a Missouri bank 60 cents on a \$50 check (1 1-5 per cent, or \$12 per \$1,000, four times its own charge); by another Missouri bank 80 cents on a \$316 check ($\frac{1}{4}$ of 1 per cent, two and a half times its own charge of 32 cents); by a Colorado bank 35 cents on a \$72 check (half of 1 per cent, nearly double its own charge of 18 cents); by a Pennsylvania bank 35 cents on a \$36 check (1 per cent, two and a third times its own charge of 15 cents); and by a Kentucky bank 64 cents on a \$42 check ($1\frac{1}{2}$ per cent, or \$15 per \$1,000, over fourfold its own charge). Perhaps a tenth or an eighth of all out-of-town banks having accounts in St. Louis charge their St. Louis correspondents, and frequently, if not habitually, as much as or more than the St. Louis banks charge their city dealers.

REFUSING CHECKS ON NON-CLEARING MISSOURI BANKS.

If St. Louis banks arrange with seven-eighths of Missouri banks to collect their checks through the clearing-house upon the Sedalia plan at par, debiting their

accounts with the checks on day of mailing, what shall be done with checks drawn on banks who refuse to pay in full and insist upon deducting exchange? The rules and regulations of the clearing-house now limit deposits of St. Louis checks by city customers to checks on city banks and trust companies that have arranged for clearing their checks through the St. Louis clearing-house.*

A similar restriction as to out-of-town checks, made by the London clearing-house upon the establishment of country clearing in 1858, induced a small minority of English and Welsh banks to come in with the majority and pay their checks in full, though at first quite indisposed to give up their ancient practice of charging "commission," as they called it. If the St. Louis Clearing House Association prohibited city banks and trust companies from receiving deposits of Missouri checks not paid in full, city customers being unable to collect them would return them to those from whom received. The makers would take up the matter with the country banks. Those whose accounts entitled them to have their checks collectible at par in St. Louis would make out so good a case that the country bank would come into the arrangement with St. Louis and pay in full. He who drew without money in the bank and calculated to cover the check upon presentation would learn that the bank was expected to pay the check on the preceding day in St. Louis. Country customers would not be allowed, without paying for the privilege, to draw checks which would be paid before their money was in the bank. The neces-

** Deposits of City Customers Limited.*

"All banks and trust companies belonging to or connected with this Association are prohibited from receiving as deposits from city customers checks on banks or trust companies located in the City of St. Louis which have not arranged for clearing their checks through the Clearing House of this Association."

sary deposits or compensation would be had, and the country bank would be satisfied with the St. Louis arrangement.

FREE COLLECTIONS.

As all checks on banks in the free zone would be St. Louis exchange, there should be no charge by St. Louis banks to city customers or correspondents for collecting such checks.

MANAGER OF THE CLEARING-HOUSE TO COLLECT SOME.

In some States and Territories it might be advisable for St. Louis to collect checks not paid in full. Charges for collecting such checks would doubtless be continued. All such should be collected through the clearing-house upon the Boston plan; that is, the checks deposited in St. Louis banks would be taken by them to the clearing-house and left with the manager who would be the collecting agent and send them direct to the banks drawn on, accounting to the St. Louis banks for the proceeds upon receipt. Whenever the amount on a bank was large enough to be so handled with effect, the checks should be collected by express and lawful money demanded, as the possibility of their collection in that manner would finally induce any bank to pay in full.

When banks located in the area to be covered by the St. Louis system have no St. Louis correspondent, the manager should collect checks on them, unless some St. Louis bank can, by some reciprocal arrangement, debit the amount of the checks to a collecting bank in their neighborhood. The collection of such checks by the manager would be economical, and the charge to city depositors should be moderate.

BANK DRAFTS HONORED FIRST.

It is no practical hindrance to the working of the Sedalia plan that the out-of-town bank's account is debited with checks, subject to return if not good, and also subject to prior claims of the bank's outstanding

drafts and certified checks. The bank must always be free to dispose of its balance as last advised, notwithstanding the entry of any checks, not yet presented to it or accepted, with which it permits the city bank to debit its account conditionally. Its own drafts and acceptances are honored first.

POSTAGE, HOW APPORTIONED.

Any system of clearing out-of-town checks economizes postage. By the Sedalia plan the postage is an expense of the city bank that receives the checks at the clearing-house and forwards them to its correspondents. City banks with few or no country correspondents to whom they send checks for collection would have little or nothing to pay. To apportion the postage exactly among the city banks, the weight of the out-of-town exchanges could be reported at the clearing-house, each member to be debited with the quantity it brought in and credited with the quantity it took out, at two cents per ounce, and the clearing-house to be paid the balance which a bank had to pay and to be charged the balance which a bank had to receive. There would also be inequalities in the clerical labor involved. One bank would receive from another a number of checks to inclose in its daily letters to hundreds of correspondents, while the other without correspondents would have none to inclose. All this could be equitably adjusted, if desired; but in London, as well as Sedalia, forwarding is part of the regular service which the city bank renders its country correspondent.

DISTANCE AND TIME ANNIHILATED.

To understand better the special advantage of the Sedalia plan in making collections over a wide area, imagine all Missouri banks congregated in one city; then all would be expected to patronize a clearing-house, clear their checks as members or through members, and settle the same day. Scattered over the State they wonder

why or how they should clear. It is their distance apart, the time it takes to exchange their checks, which makes the difference. Ordinarily a check is carried to the clearing-house by one bank and from there to the bank drawn on, and paid by balancing accounts after a few hours for examination of the checks exchanged. By the London and Boston plans a Jefferson City bank would send a Hannibal check to St. Louis on Monday. It would pass through the clearing-house on Tuesday and go to Hannibal that afternoon. On Wednesday afternoon Hannibal would advise payment or return a draft on its St. Louis correspondent, who would debit it on Thursday. By the Sedalia plan the check would be paid and debited on Tuesday—a saving of two days. A St. Louis check deposited in a St. Louis bank on Monday would be paid no sooner. The Sedalia plan would make State and city checks payable in the same time (with few exceptions). All Missouri banks would be as if in one city. Distance between them would be as if annihilated. They would be clearing and settling on the same day. Such prompt payment of checks would give wonderful impetus and maintenance to trade.

DRAWING THE SOUTHWEST CLOSE TOGETHER.

The improvement should not be confined to Missouri. A Texas merchant sends his check on Dallas to St. Louis and does not expect it to be presented at his Dallas bank in less than four or five days. The Sedalia plan has it paid in two days at St. Louis, halves the distance it travels before payment, shortens the time it is outstanding unpaid at least one-half, draws every point in the Southwest so much nearer St. Louis, knits the whole region so much more closely together.

A grand principle of economy underlies this plan. It masters the natural obstacles of space and time which the broad expanse of our country offers. A universal benefit, the plan will be of particular advantage to the center at

which it is established. And if St. Louis inaugurates and accomplishes so great a movement, this city will deserve and have a substantial reward.

SUMMARY.

To sum up, the Sedalia plan should be established in St. Louis and extended to 7,000 banking institutions in Missouri and adjacent regions, covering upward of one million square miles.

St. Louis banks should stop charging for collections on banks that enter the system and make their checks payable, if desired, at par in St. Louis; and should either prohibit collections on banks not entering, or have the manager of the clearing-house collect checks on non-conforming banks and by express when in sufficient amount to be advisable.

The St. Louis County Bank (Clayton) and others can only be kept out of the system by flat refusal to admit them. The majority would adhere without much pressure, and the minority could not long resist.

Debiting in St. Louis an out-of-town bank one or more days before the check arrived at its counter would enable it to insist upon and establish with its customers remunerative relations, offsetting the loss of exchange, now deemed indispensable.

The debiting would be conditional: subject to return of the check, if not good; and subject to the prior claim of the bank's outstanding drafts and certified checks.

St. Louis should arrange either through its banks or the manager of the clearing-house to collect all points in the area embraced.

All parts of the region would benefit. St. Louis banks would gain millions of deposits.

The plan, practically annihilating space and time in collections, would introduce a grand principle priceless in a broad land.

GENERAL SUMMARY.

The economy of clearing city checks was well shown in New York, where the organization of a clearing-house substituted one exchange of checks at this central agency for fifty at the counters of banks, enabling each bank to send its messenger to one place instead of many, keep one account with the clearing-house instead of fifty with the banks, pay or receive one balance instead of fifty, and settle daily instead of weekly.

Clearing out-of-town checks is needed to reduce the amount of correspondence, bookkeeping and postage, the number of handlings and of banks involved in collecting an out-of-town check. It is needed to spare the checks superfluous journeys and abolish collection charges.

The London plan requires every English and Welsh bank to have a clearing agent in the city, who receives checks on it at the London clearing-house from other clearers and forwards the checks to it the same day, debiting it upon advice, which will be by return mail, and paying for the checks at the clearing-house on the next day but one after receiving them there. On that next day but one the clearing bankers carry their country clearing balances forward as items in the settlement of the day's city clearing. Unpaid checks are returned not to London but direct to the country bank whose stamp they bear. The bank drawn on advises its clearing agent of the checks returned and their amounts, which are charged back through the clearing-house. No check on which "commission" or exchange is charged by the paying bank can be collected through the London clearing-house.

A modification of the London plan is followed in the provincial clearing-houses of England and at the Sedalia (Mo.) clearing-house. The clearing bankers of Sedalia, Manchester, Newcastle-on-Tyne, etc., pay for out-of-town checks the same day they pass through the clearing-house, subject to return of unpaid items, whereas London pays two days after they pass through and then subject to return of any unpaid items not yet returned or advised. The Sedalia plan has been tried elsewhere in the United States, and seems to be the proper model for Missouri and the West.

Country clearing, when proposed by the country bankers of England in 1858, was at first opposed in London. It was opposed on this side of the Atlantic. The opposition in Boston was such that two attempts to clear New England checks were defeated (in 1877 and 1883). To break the Boston deadlock, which lasted twenty-two years, it required an outside movement started among the Connecticut banks. The Boston system, established in 1899, includes checks on all points in New England and maintains a free zone of nearly equal extent. A few New England banks refuse to pay the Boston clearing-house in full for their checks, deducting so-called exchange. Payment in full could be secured either as in London, by Boston clearers returning checks drawn on such banks as not collectible through the Boston clearing-house, or by charging to collect checks bearing indorsement of the non-par banks, which would cut these banks off from the use of the New England free list now enjoyed by them without being themselves on the free list. The majority of banks at a clearing point like London or Boston can, if they will, overcome opposition, whether among their own number or among the country banks in the surrounding territory.

The Boston deadlock was broken by proposing to substitute the manager of the clearing-house for any mem-

bers that were indisposed to participate in the New England clearing. The Association finally decided that all checks passed through the out-of-town clearing should be collected by him. The Boston clearing-house has thus constituted itself an agency through which members can collect any out-of-town checks on points in New England not drawn on their own correspondents. The country bank settles with the manager, he with members. The settlement is through the regular morning clearing on the second business day after the checks to be collected are delivered at the clearing-house and mailed to the country banks.

The trend of the times is to clear out-of-town checks, as clearing economizes and reduces cost. New England banks are asking New York to clear their checks. Some New York banks prefer a charge-system of collections without clearing, but public opinion must be considered. It does not permit New York to make such charges as St. Louis makes. On the other hand, St. Louis, charging only city customers, collects without charge for outside banks.* The associated banks of New York, charging both city customer and out-of-town bank, would destroy the metropolis as a collecting center if the great concentration of payments there did not prevent. The situation is intolerable. In the end New York will follow London and Boston.

St. Louis should establish the Sedalia plan, extending it throughout Missouri and adjacent regions, particularly in the Southwest. St. Louis banks should stop charging for collections on banks that enter the system and make their checks payable, if desired, at par in St. Louis. Checks on any point in the area embraced should be collectible either through St. Louis banks by the Sedalia plan or through the manager of the St. Louis clearing-house by the Boston plan. All regions would benefit.

*The new rule does not alter this materially, p. 131.

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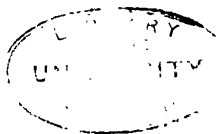
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